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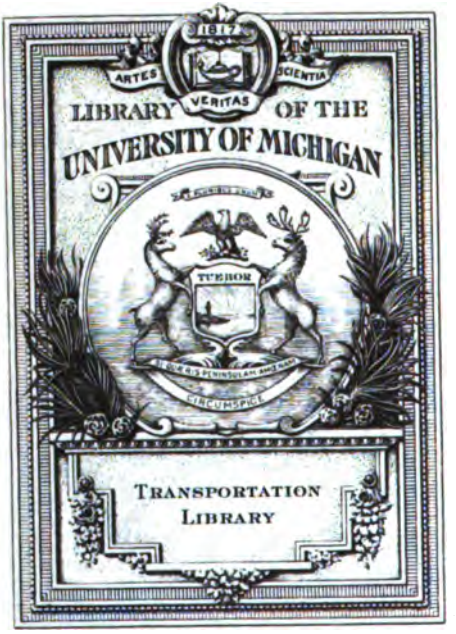

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WHERE AND WHY
PUBLIC OWNERSHIP HAS FAILED

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WHERE AND WHY PUBLIC OWNERSHIP HAS FAILED

BY

YVES GUYOT

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TRANSLATED FROM THE FRENCH BY

H. F. BAKER

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PREFACE

The chief difficulty in preparing this book has been to make a coherent arrangement of the material, as the various sources from which it has been gathered are more or less incomplete. Indeed the obstacles in the way of presenting a true picture of industrial enterprises, as operated by states and local governments, can scarcely be exaggerated.

The partisans of government and municipal ownership of every species of public utility have assumed a distinctive title. They call themselves representatives of the movement for direct operation (*Représentants de la Régie Directe*). Their leader in France is Edgard Milhaud, occupying the chair of Political Economy at the University of Geneva, where he makes a special point of emphasizing Socialism.[1] In a little periodical, entitled *Annales de la Régie Directe,* he presents the case for all government and municipal undertakings, although his enthusiasm frequently receives cruel setbacks, as in the suicide of the Mayor of Elbeuf. He has also published several articles for the purpose of demonstrating that accidents are much less frequent upon government railways than upon the lines of private companies. We shall see later (Book 3, Chapter

[1] See *La Démocratie Socialiste Allemande,* Paris, F. Alcan.

2) the value of these attempts to justify his creed, and we may judge from them the importance that is to be attached to his other statements.

For the academic year 1911-1912, *L'École des Hautes Études Sociales* organized a series of conferences on the subject of public operation under the direction of M. Milhaud. It was considered advisable that at the close of this series a dissenting voice should be heard—a rôle ultimately assigned to me. In addition to ten preceding lectures, wherein the whole theory and practice of Socialism had been set forth, M. Milhaud was to speak for forty minutes, after which I was to be allotted forty in which to refute the points previously developed by him during 640 minutes. Then we were both to be allowed twenty minutes in order to sum up our arguments. I had at least the satisfaction of knowing that *L'Humanité* [1] attached sufficient importance to this conference to announce that for several days before it was to take place entrance tickets would be reserved for "comrades"; under which conditions it was not difficult to foresee that the hall would be converted into a public assembly room.

His audience, thus prepared and won over, naturally gave M. Milhaud an enthusiastic welcome. However, despite some murmurs, it proved itself not unwilling to allow me to oppose my facts to his statements.

I borrow from the report of the discussion, as published in *L'Humanité,* November 14, 1911, the following résumé of the argument of M. Milhaud:

[1] The organ of the Socialist propaganda.

"Private monopoly, seeking nothing but maximum profit, is far more costly than public monopoly, which is not bound by the same conditions. Money costs public enterprises less, and, therefore, they can amortize their debt and thus reduce general expenses. On the other hand, heavier expenses for labor can be supported by public undertakings. The management of a public enterprise can even hope for profit, and all this can be accomplished within less rigid limits than those which necessarily confine private monopoly.

"Milhaud concluded by outlining the tendency of public enterprises to become administrative autonomies. In order that they may escape pernicious bureaucratic influences, they are being transformed into separate commercial entities. Through increased control by the consumer, on the one hand, and by labor on the other, they are being gradually but completely socialized.

"Through reduction in prices, these enterprises create larger bodies of consumers, and they also bring about more flexible relations between employers and employed. The representatives of collectivism, individual consumers and producers, may thus unite in behalf of social progress."

When we come to examine the assertions of the propagandists of public operation, we perceive that they are of no better quality than any other Socialist theories; but the assured manner with which these statements are declared succeeds in disturbing and intimidating many people. Yet, in the elections of 1910, Paul Forsans, President of *La Société des Intérêts Économiques,* was able to organize a vigorous campaign against an alcohol and insurance monopoly.

French Socialists, unable to appeal to the experience

of the Western (state) railroad, or the experience of the town of Elbeuf, say: "Very good, but in Prussia the state railways are altogether satisfactory, and, in all the important cities of Great Britain, Municipal Socialism is enjoying a veritable triumph."

Such partisans quote the testimony of public departments, never weary of boasting of their own successful administration, and of municipalities which, inspired by local pride, declare that they have accomplished miracles. But how can we accept these prejudiced certificates of good conduct until we have been privileged to make a detailed inventory?

There is a crying need at the present time for collections of precise facts, which shall show the vanity and "bluff" of Socialist programs, and such facts must be placed before the public. My sole object in writing this book has been to present just such a compilation of rigidly investigated, authentic facts and figures regarding public ownership and operation. If I have not been able to affirm that government and municipal undertakings are efficient the fault is not mine. I have not found them so.

A well-known American, Arthur Hadley, President of Yale University, says, in his book entitled *Economics:*

"The advantages of intervention on the part of a government are visible and tangible facts: The evil that results from such intervention is much more indirect and can only be appreciated after close and intensive study."

I have vainly sought for the benefit arising from public operation by states and municipalities. On the

contrary an unbiassed survey of the whole subject forces me to testify to the resulting harm.

Y. G.

November, 1912.

For the American edition the facts and figures herein set forth have been brought up to date—June, 1913.

TRANSLATOR'S NOTE

The translation has been read and revised by the Author. Otherwise my hearty thanks for most valuable assistance given in translation are due to Miss Elise Warren and Mr. William D. Kerr.

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WHERE AND WHY
PUBLIC OWNERSHIP HAS FAILED

Where and Why Public Ownership Has Failed

BOOK I

PUBLIC AND PRIVATE TRADING OPERATIONS

CHAPTER I

TWO PRECEPTS

Neither national nor local governments should attempt that which can be done by individuals: says the economist.

Labor for personal profit must be replaced by labor for the sake of service: answers the Socialist.

Experiments in the way of nationalization and municipalization of public utilities, with the Socialist ideal in view, have been sufficiently numerous. Do they warrant the decision that nations and municipalities have reaped the advantages promised by their advocates? This question—primarily a psychological one—we are going to try and answer in the following pages.

CHAPTER II

THE THREE MAINSPRINGS OF HUMAN ACTION

1. Compulsion.—Bribery.—Instinct for Personal Gain.—Government and Municipal Ownership Would Substitute the First Two Influences for the Third.
2. No Dividends on Capital of Public Undertakings.—Interest and Amortization.—The Altruism of Disinterested Managing Boards.—Work for the Sake of Service.

1. Down to the present time there have been only three mainsprings of human action—compulsion, bribery and instinct for personal gain.

Compulsion is the true basis of confiscation and slave labor. Give or I take. Work or I strike.

Bribery, in the way of high office, rewards, decorations, rank and homage, helps to blind us to the presence of compulsion. The church, the schools, and the army furnish the best and most familiar examples of the effect of these two forces, which government and municipal ownership would substitute for the incentive of personal gain.

Neither compulsion nor bribery, however, has proved quite sufficient to induce continuous action on the part of employees and officials entrusted with the operation of national and municipal services, for they are utterly incompatible with any form of contract. The very nature of a contract requires free assent to

its terms on both sides. Therefore, the third force, the instinct for personal gain, is invoked.

Personal gain does imply a preliminary agreement —assent on the part of him who offers his services as well as of him who is to pay for them. Every group of employees at the present day is working, not for the sake of service, but for gain.

2. Is the management of a national or municipal undertaking more economical than the management of a private enterprise? "Yes," answers the Socialist, "because no dividend need be paid on capital."

But there *are* interest and amortization to provide for on capital. Consequently the margin of economy is only the difference between interest and amortization, which public undertakings must provide, and dividends which the capital of private enterprises must have.

"The high-salaried employees are paid less by public than by private enterprises: and there are no boards of financially interested directors," continues the Socialist.

This is possible, but the salaries of ministers, burgomasters and mayors are high; though these high salaries come from the exercise of several different functions. It is probable that high-salaried government employees are paid less than their colleagues of the same relative rank in the employ of private industry; but, in general, the personnel of public undertakings is more numerous and the expenses, therefore, amount to more in the long run. The management of the Western (government)

railway, of France, for example, has established sixteen directorships in place of the three departmental divisions customary in the case of private railways. There are no financially interested boards of directors, but it is a question whether the altruism of the councils which direct and control national or municipal undertakings is of greater advantage to these enterprises than personal interest would be.

In effect the partisans of public operation find economy in the non-remuneration of capital, outside of interest and amortization, and in the meager remuneration of promoters, directors, councillors, and the chief managers of the enterprise.

CHAPTER III

DETERMINING MOTIVES OF PRIVATE AS AGAINST PUBLIC ENTERPRISES

1. Why Do Individuals Establish an Undertaking?
2. The Motives of Politicians.—Sacrifice of the Service to Personal Ends.—The Roof of the Louvre.—The Department of Fine Arts (Beaux Arts).
3. The Freycinet Program.
4. Municipal Interests.—Public Officials.
5. *Invidia Democratica*—Appeal to Party Passions.—Purchase of the Railways.—The Purchase of the Western Line.—Socialization a Political Necessity.
6. Financial Aims and Hypocritical Excuses.—Pretexts and Realities.—The Alcohol Monopoly in Switzerland and Potatoes.—The Alcohol Monopoly in Russia, Temperance and Fiscal Laws.

1. When one or more individuals invest their energy, their knowledge, and their capital in an industrial enterprise they must be convinced beforehand that in so doing they are responding to a demand on the part of a group of consumers having a sufficient purchasing power to repay them for their services, as well as for the products which will be offered.

If the estimates of the founders of such an enterprise are correct, they will gain; if incorrect, they will lose. In either case they will bear the responsibility for their acts. Gain or loss is the inevitable

and infallible consequence of every such enterprise. And, as every man who is on the point of engaging in business knows that one of them must occur, his energy is spurred on by the hope of the one, while at the same time it is being curbed by the fear of the other.

The industrial and commercial progress of all nations far advanced along the pathway of evolution proves that the majority of those individuals or groups of individuals who have engaged in business undertakings have calculated accurately.

2. Statesmen at the head of nations or municipalities are not necessarily responsive to the conditions just described. The undertakings in which they involve the state or the municipality will not yield them any personal profit in case they succeed, nor will they be called upon to suffer any loss if they fail. The inevitable and infallible criterion of the business man is lacking in their case. By what test, then, are their motives to be construed?

As a rule their action is determined by the amount of personal advantage resulting for themselves; not, it is true, in the form of gain, but in the form of an increase in the duration or extent of their power. They establish such or such an enterprise, because, in looking about for some bait likely to attract the public, they have found this particular one. Does the enterprise fill a long-felt want? That is a secondary question. The first consideration is what will make the broadest appeal to the popular prejudices and sympathies of the moment. I have heard ministers and

deputies say: "There is nothing to do, but we must do something."

Now expenditures which have a certain audacity about them are sure to be accepted with a much better grace than those which do not appeal to the imagination of the public.

As an instance in point, let me quote from my own experience.

When I became minister of Public Works I speedily discovered that the government buildings under the jurisdiction of my department were being very badly kept up by the department of fine arts (Beaux Arts). Knowing by personal experience the importance of roofs I turned my attention first to them. In the case of the Louvre, to quote but a single example, the water leaking through the roofs was cracking the walls. Moreover, not one of the seventeen lightning rods attached to the building was in working condition, while the majority of them were so insecure that they were liable to fall at any moment on the heads of passers-by. I used the entire appropriation at my disposal to insure an efficient roofing of the buildings entrusted to my care. The rest could wait.

But, from the point of view of popularity, I had made, as I had foreseen, a wretched move. That form of flattery which consists in the sacrifice of one's own to public opinion forms part of the very stock in trade of the politician; and, if he is shrewd, he will not hesitate to make the sacrifice.

Again, in 1902 the French Parliament passed a law on public hygiene, under which municipalities are required to furnish drinking water and sewerage sys-

tems. A number of deputies and senators who had voted for the bill hastened immediately to the minister of the interior to demand that the law should not be applied to the municipalities in their particular districts. And so it goes.

The following illustrates a different but equally dangerous tendency:

Certain officials of the Beaux Arts are provided with funds for the purpose of placing orders or for the purchasing of works of art at the salons. These men are beset by recommendations and advice of all sorts. Concentration of their appropriations upon one important work is out of the question; they must fritter them away in small amounts, because there are so many people to satisfy. In all purchases of art works there is, of course, a large proportion of mistakes, which will be accounted in the future as dead losses; but it is not necessary to begin by buying failures, as so frequently happens.

Nor does this criticism refer solely to contemporary officials. Ministers and under-secretaries of state of other periods than our own were equally human. Side by side with the Thomi Thierry art collection in the Louvre are to be found government purchases of works by the same artists, made at the same time. The degree of taste shown in the choice of the pictures included in the Thierry collection is far superior to that shown in the official collection.

3. In 1879 Charles de Freycinet prepared his grand program of public works. There is no more agreeable pastime than to prepare a program of public works.

Hope is inspired, delusions encouraged, and we can leave to our successors the trouble of realizing them. All succeeding ministers of Public Works have been liquidators of the Freycinet program. The spirit which dictated it struck the public imagination. "The government," it was said, with the hearty applause of the French Parliament, "must assume charge of the national savings." As if there were any savings except those of individuals, and as if those who had known how to accumulate them would not be more careful to use them to good purpose than those who had had no interest in their acquisition! All the deputies and senators demanded a share of the cake for their constituents. M. de Freycinet yielded everything, encouraged still further demands, and requested engineers to submit plans for railways, canals, or ports. The government concentrated all its energies on carrying out his program.

In 1883, however, and as a result of all this, the nation would have been bankrupt if M. Raynal had not closed certain contracts with the railway companies; contracts which Camille Pelletan later described as infamous. But he has never explained what the government would have done if the contracts had not been signed.

4. A so-called movement of public opinion frequently rewards intensive study. Any day you may be suddenly aroused to the consciousness that there is a movement on foot in favor of a certain public undertaking. On the side you are informed that so and so and so and so (local politicians) have made large

speculations in view of precisely this project. The municipality, for its part, may placidly obey the hidden impulse. If not, the parties interested proceed to take a more or less direct part in the struggle. In any event the simple, hoodwinked people become very enthusiastic for or against the issue.

In 1902 the City of Birmingham decided to submit a bill to Parliament which would permit it to take over and operate its urban tramway system. A referendum vote was taken. Out of 102,712 registered electors, only 15,742, or 15 per cent. of the total electorate, voted. Moreover, according to the *Daily News,* "high officials of the town led gangs of municipal workmen to the polls." [1] Major Leonard Darwin says in this connection:

"The more energetic and able they (the officials) are, the more likely will they be to view with favor new projects connected with municipal trade." [2] In the end, perhaps, such an extension of the official functions will mean more work for such enthusiasts. But their influence will probably be greater, and conceivably even doubled, through the resulting increase in their financial importance.

5. The promotors and leaders of movements in the direction of government and municipal ownership frequently resort to exciting and exploiting the so-called *invidia democratica,* or democratic jealousy, one of the plagues of the Roman Republic, and always in

[1] Raymond Boverat, *Le Socialisme Municipal en Angleterre et ses Résultats Financiers,* p. 444.
[2] *Municipal Trade.*

evidence in an individualistic state. Men who are at the head of private enterprises are denounced as exploiting their fellow-citizens. Their profits—usually exaggerated—are quoted, and the claim is made that such moneys will be restored to the people when governments, local or national, provide everything and individuals nothing.

Was the object of the purchase of the Western railway in France economy in expenditure and improvement in transportation facilities? Not one of those who demanded and voted for it dared to make such a claim. With the lines belonging to the state the deputies would have places for their constituents, a certain right of political interference in the administration, and hence a large degree of electoral influence. Resolutions favoring the purchase of the Western railway had been rife since 1902, but no minister of Public Works had endorsed them. Immediately after the elections of 1906, however, Georges Clemenceau, then Minister of the Interior, started on a hunt for a program which would be Socialist without being collectivist. Socialism is the present phase of the movement; collectivism is the Socialist's dream.

Clemenceau took from his predecessors: 1. Noonday rest. 2. Limitation of working hours and a collective labor contract. 3. The income tax. 4. Labor pensions.

But he was also anxious, by socializing something, to conciliate the Socialists and the Radical Socialists. He therefore selected the purchase of the Western railway as suited to his purpose. Then, in order to be certain that the affair would go through, he impli-

cated Louis Barthou in the affair, in the latter's capacity of minister of Public Works, although Barthou's antecedents did not point to him as especially fitted to carry out such a measure.

6. One of the chief incentives to the establishment of a government monopoly is the hope of procuring resources without the stigma of an apparent fiscal object attached. It is one way of making the taxpayers pay taxes without perceiving that they are taxes. As a matter of fact they are simply misrepresented taxes. Appeals of their promoters to the moral and hygienic interests of the nation, in order to effect the desired object, are equally disingenuous.

For example, the alcohol monopoly in Switzerland was submitted to the people as designed to combat alcoholism, while putting an end to the *ohmgeld* duties, a sort of internal revenue duty. As for alcoholism, the financial history of the individual cantons, which have been receiving their share of the profits of the monopoly for the purpose of fighting it, proves just how relative has been the attention devoted to the eradication of that particular evil.

But there was still another motive, although it has been mentioned only in conversation. In Switzerland every quart of alcohol is produced from potatoes. Growers found that the distillers were buying their potatoes too cheaply. Therefore, at the opportune moment, the Federal government increased the purchase price of domestic alcohol, saying to the potato grower: "You see, we have increased the price of alcohol. Whereas, in Austria, alcohol costs 20 or 30

francs, we in Switzerland pay more than 80 francs for it; and we are doing so in order that you can sell your potatoes at a good price. In other words we are granting you a subsidy."

When the monopoly of alcohol was established in Russia it was repeated in every key that the object in view was moral and not financial. It was established, in the first place, in order to ensure to the *moujik* (peasant) absolutely pure alcohol. Emphasis was placed on the characteristic retail shops of the government, kept by officials who can have no interest in increasing consumption. There is neither chair, corkscrew, nor glass in the shop; therefore, the *moujik,* after buying, must go elsewhere to drink.

But, in 1912, the receipts from the monopoly on alcohol were estimated at 763,990,000 roubles, out of a total income of 2,896,000,000 roubles, or 26 per cent. It is, therefore, easily surmised that officials charged with the sale of alcohol would be held to a strict account if devotion to the temperance cause should happen to bring about a deficit in the budget. The moral aspect of the monopoly is completely effaced by fiscal interest.

M. Augugneur heads a local and national ownership party. Why should he advocate public ownership? Simply in order to have a platform—a reason for party existence. The future of municipal or government undertakings is a secondary matter. What *is* necessary is an issue which will lead to political action and to immediate power.

If any enterprise inaugurated by a mayor or by a

minister is difficult and useless neither the mayor, the minister, the municipal councillors, the deputies, nor the senators who have brought it into being will be called upon to bear any material responsibility for it. The taxpayers of to-day and to-morrow must assume the entire burden. Sometimes the failure of an undertaking involves a decrease in the influence of the politicians who were its promoters. But frequently it increases their importance in the public eye.

The risks which the Freycinet program carried with it; the uselessness of a quantity of the work included in it; the burdens which have accrued from the operation of railroads; an excess of 30 per cent. in the construction of navigable ways which are not yet finished, all this has in no way injured the prestige of the author of that program. The advocates of the purchase of the Western line are coping cheerfully with the deceptions it has engendered, and they imagine—and rightly—that no one, or almost no one, has ever placed in parallel columns their promises and the actual facts.

Again, had M. Barthou conducted a private business after the fashion in which he carried through the purchase of the Western road, he would long since have been branded as a defrauding bankrupt. As a public official the state has rewarded him for his efforts in this direction with the premiership of France.

Conclusions.

1. Any private undertaking has a definite objective point—gain; and a certain test—gain or loss.

2. The motive behind municipal and national undertakings is usually political or administrative influence for their promoters.

3. The promoters of public undertakings escape all material and—generally—all moral penalty.

CHAPTER IV

GOVERNMENT AND MUNICIPAL TRADING OPERATIONS

1. The Report of Gustave Schelle to the International Statistical Institute.—List of Public Industrial Operations. —Postal, Telegraph and Telephone Systems.—Mints.
2. Public Trading Enterprises of Denmark, Switzerland, Holland, Italy, France, Belgium, Sweden, Austria, Germany.
3. The United Kingdom and the United States.
4. The London County Council.
5. The Municipal Activity of Russia.
6. New Zealand.—Government Socialism More Fully Developed Than in Any Other Country.—Socialist Enterprises.
7. Nationalization of the Soil in New Zealand.
8. Government and Municipal Trading Operations Restricted in Scope.

1. When zealots in the cause of "a transference of trading and commercial undertakings to public bodies" declare that it is a general and irresistible movement, they are mistaking their hopes for an accomplished fact. Public trading enterprises in actual existence are relatively few.

During the session of the International Statistical Institute of 1909, at the suggestion of MM. Arthur Raffalovich and Gustave Schelle, a committee was

appointed for the purpose of collecting statistics regarding state and municipal trading undertakings. The members of this committee were: Yves Guyot, chairman; Gustave Schelle, secretary, and MM. Colson, Raffalovich, Fellner, Nicolai and Hennequin. The report of this committee was presented to the session of the International Statistical Institute which met at The Hague in 1911.

The industries monopolized by nations or cities appear in the report as follows: The postal systems in every country and telegraphs and telephones in every country except the United States. All governments coin money, either free, as in England, or for a slight charge. In the following summary we will not speak of these four utilities unless they present some special characteristic peculiar to the country under consideration.

2. The report begins with Denmark. It is generally known that this country is very active and very highly developed industrially. Its population, however, is smaller than that of the city of Paris.

Denmark operates, in connection with its army, twenty public enterprises, employing altogether 2,335 people. The railway system comprehends 37 enterprises, employing 4,797 people. In addition to these there are 16 other enterprises, employing 279 people, and including a dressmaking establishment and a workshop attached to the royal theater.

The total number of these enterprises is thus 73, employing 7,411 people, of whom 7,166 are laborers. But the majority of Danish state undertakings are

only semi-public in character. The principal object of the factory at Usseröd is the manufacture of cloth for the Army and Navy, but it has a retail shop for the benefit of the public. The powder mill of Frederiksvärk has a monopoly of the manufacture of powder. The three ports of Helsingör, Frederikshavn, and Esbjerg are the three great ports of the state. The royal manufacture of porcelain is not counted among government industries.

As for the towns the census of 1906 gives 43 water works, 1 street paving enterprise, 2 embankment enterprises, 1 dredging undertaking, 2 construction undertakings with 29 workmen, 1 shipyard, 1 combined gas and water plant, 2 moulding undertakings, 1 installation of electrical apparatus, 8 plants for the production and distribution of electricity, 60 gas works, 2 wrecking enterprises, and, finally, 1 chimney sweep and 1 machinist, each of whom is considered as a municipal enterprise. The total is 126 enterprises, employing 2,274 people, or an average of 18 persons each.

In Switzerland the state alcohol monopoly buys potato spirit and sells it again. It does not manufacture it. The state both owns and operates its railways.

In Holland the state publishes an official journal and operates the Wilhelmina and Emma pit coal mines. The government railways are operated for the state by a private company.

For Italy, Giovanni Giolitti, then minister of the Interior, had already furnished statistics of the

principal municipal trading undertakings up to 1901, in a report presented to the Chamber of Deputies, March 11, 1902. The report lists 171 slaughter houses, 151 water works and artesian wells, 24 plants for the production of electrical energy, 20 public laundries, 15 gas works, 12 undertaking enterprises, 12 public baths, 4 ice plants, 3 sewage disposal plants, 3 irrigation enterprises, 2 bakeries, 2 pharmacies, and a few other less important services. The railways are state-owned and operated.

The law of March 29, 1903, enumerates 19 enterprises which municipalities may undertake. Outside of the usual services, water, gas, electricity, etc., we might mention pharmacies, mills and bakeries, as "normal regulators" of prices, ice plants, public bill posting, drying rooms and store houses for corn, the sale of grain, seeds, plants, vines and other arboreal and fruit-bearing plants.

The same law has determined the manner in which local governments may purchase concessions previously granted to private interests. They must pay to the owners an equitable indemnity, and account must be taken (a) of the market value of the construction and of the movable and immovable equipment; (b) of the advances or subsidies made by the local government; the registration taxes paid by the concessionaires; and the tax that the companies were able to pay to the towns on excess business; (c) of the profit lost to the concessionaires through the purchase, based on the legal interest rate for the number of years which the franchises have still to run, with annual sums equal to

the average profits of the five years last passed (not including interest on capital).

The law of April 4, 1912, established a life insurance monopoly.

The report of the Congress of the Federation of Municipal Enterprises, held at Verona, May 21 and 22, 1910, enumerates 74 special public enterprises, 31 of which were in existence before the law of 1903. This would tend to prove that the law had not aided greatly in their further development.

France has: 1. Fiscal monopolies, such as matches, tobacco and powder. 2. Postal system. 3. Government railways, comprising the system bought before the Western line; the Western railway; and the railway from Saint Georges de Commiers to La Mure, in the district of Isère, the operation of which constitutes a distinct department aside from that of the other government railways. Little is known concerning this third system.

Other enterprises are: the National Printing Office; the official journal (*Journal Officiel*); the manufacture of metals and coins; the manufacture of Sèvres porcelain; the manufacture of Gobelin tapestry; the manufacture of Beauvais tapestry; the water works of Versailles and de Marly; stock farms; and the baths of Aix-les-Bains.

The City of Paris has organized several commercial ventures. In 1890 a municipal department of electricity was installed, which was abandoned in 1907. The city has also taken full control, since June 1, 1910,

of the Belleville cable railroad. In 1905 it municipalized the undertaking service, and it operates a stone quarry for the benefit of the city streets. These are the only directly managed undertakings of the City of Paris. A mistake was made in becoming a shareholder in a gas company. In the case of water the city has undertaken to construct and maintain pumping stations and also mains, but it has granted to a private company the right to construct branch pipe connections, to receive subscriptions and to collect rents.

The Municipal Council of Paris has leased its electrical supply down to 1940 and also its transportation facilities, both surface and underground.

Belgium owns and operates nearly all its railways. It runs steamers from Ostend to Dover, and on the canal from Anvers to the port of Flanders.

In Sweden the state owns and operates the railways.

In Austria, according to a work compiled under the supervision of J. G. Grüber, by Doctor Rudolph Riemer, secretary of the Central Bureau of Statistics, outside of the customary monopolies the state controls fiscal monopolies, such as tobacco, salt, powder, lotteries, railways, a national printing office, an official journal, docks, stock farms, forests, and other public lands and mines.

Municipalities which M. Schelle has not listed operate gas and electric plants, undertaking services, baths, pawnshops, horticultural establishments, slaughter

houses, savings banks, theaters, docks, hydro-electric works, race tracks, tramways, and daily newspapers.

In regard to Germany M. Schelle had received no information concerning the German railways, nor the fiscal mines of Prussia. The government operates coal mines in upper Silesia, the districts of Deister and Oberkirchen, in Westphalia, and in the district of La Saar. These mines were employing 91,671 workers in 1910.[1]

The Prussian government also produces lignite, amber, iron ore and other ores, both calcareous and gypsum, potash, rock salt and refined salt, and operates blast furnaces and foundries of metals other than iron. These various industries employ 12,759 workers, which makes for the two classes enumerated a total of 104,430 persons employed. The state also operates the Prussian bank.[2]

3. The report does not take up the public undertakings of the United Kingdom, or of the United States. The results of the investigation made by The National Civic Federation of America, for the purpose of discovering whether the attempts at municipalization made in Great Britain ought to be imitated in the United States, were published in 1907 (3 volumes). However, the information given is most incomplete.

In Great Britain the telephone was not taken over

[1] See *Circulaire du Comité des Houillères*, February 20, 1913.
[2] Arthur Raffalovich in *Journal des Économistes*, October, 1912.

by the state until 1912. In the United States the telegraph and telephone are still under private management.

The Postmaster-General of the United States, in his report of 1912, recommended the annexation of the telegraph service. But President Taft, in transmitting the recommendation to Congress, declared that he by no means favored the suggestion.[1]

However the President complimented the Postmaster-General with having brought about economy in his department. But, as the *Journal of Commerce* observed, to bring about economy in a government department, and to ensure an economic administration of a trading enterprise, are two very different things.

In the British Isles municipal enterprises have been multiplied, following the Public Health Act of 1875, which act granted to sanitary districts authority to establish water and gas works, and the Municipal Corporations Act of 1882, which codified the municipal law. This latter act gives to municipalities the right to spend their income; but, in order to contract loans and make purchases or sales of land, they must obtain permission through the medium of private acts of Parliament.

The industrial undertakings of British towns are much less important than might be supposed from the rhapsodies they inspire in government ownership fanatics. In proof of this statement it is sufficient to enumerate the industrial operations of the London County Council.

[1] *Journal of Commerce*, New York, February 24, 1912.

4. The London County Council was established in 1888. From 1888 to 1894 and from 1898 to 1906 it called itself progressive. Its progress consisted chiefly in seizing, by right of its own authority, the greatest possible number of public utilities. However, the distribution of the London water supply is not controlled by the Council, despite all its efforts to obtain such control. The control of water was given by the law of 1902 to the Metropolitan Water Board, composed of 66 representatives of the various local authorities comprised within the area of distribution, which is not less than 537 square miles, or 5 times that of London. The Board has the right to levy taxes, and it has acquired, by private contract and without opposition, the holdings of 8 companies for a total of about £1,900,000 ($9,253,000). It has spent one million and a half pounds sterling ($7,305,000) in public works. In 1904 it furnished 81,823,000,000 gallons of water to 7,000,000 people, or 32 gallons a day per capita, 53 per cent. of which comes from the Thames, 25 per cent. from the river Lea, and 22 per cent. from springs and wells.

The London docks were constructed by private companies. In 1907 the government introduced a bill to take over these enterprises from the companies, which received an indemnity of £22,368,916 ($108,936,000) from the Port of London. This latter corporation, presided over by Lord Devonport, who showed himself so energetic in the strike of the dock laborers, is composed of thirty members, appointed by the government, by the municipal authorities and by individual merchants. The Port of Lon-

don is so independent of the London County Council that the latter refused to guarantee the loans that the former was forced to contract in order to pay the indemnity to the dock companies.

Neither does the London County Council furnish gas to the inhabitants of London. The companies manufacturing gas were organized by private capital. In 1855 there were 20 of these, but by 1860 the number had been reduced to 13. Subsequently there were several mergers, which necessitated private bills. Thus a way was opened for an intervention which established a scale of dividends proportioned to the price of gas. The dividend rate was fixed at 4 per cent. If there is a decrease in the price of gas the dividend can be increased 1s 5d (34 cents) for each penny of the decrease in price, which was then fixed at 3s 2d (76 cents) for 1,000 cubic feet of gas of 14 candle-power. If there is an increase in the price the dividend is diminished in the same proportion. London is lighted by two gas companies. One company sells its gas at a rate of 2s 7d (62 cents). The London County Council has only the right of fixing the quality.

The Electric Lighting Act of 1882 provided that local governments could purchase, at the end of 21 years, any electrical enterprise established within their territories. The law of 1888 extended the purchase period to the end of 42 years.

Several local governments of London have established electrical service in a number of different ways. In 16 out of 29 of the local districts there are municipal plants, but they represent a service over only 55½ square miles, while the elec-

trical companies supply a surface of 64½ square miles. In greater London the municipal plants supply 167 square miles, and 19 companies 331 square miles.

The London County Council, in 1907, planned to create an electric central station supplying a district of 451 square miles; but, when the "progressive majority" of the London County Council was replaced by a "moderate majority," the plan was abandoned. Later Parliament passed a bill, demanded by 8 out of the 10 existing companies, permitting them to consolidate their systems. But the London County Council will still have the right to buy them out, in 1931, or at the end of any subsequent ten-year period.

In fact, the Council has exercised its authority actively only in the direction of operating tramways. In 1870 the Tramway Act authorized a local government, or any private company which had obtained its consent, to ask for a private bill in order to establish a line. The Metropolitan Board of Works of London granted several companies authority to establish lines. In 1894 the Council demanded the right to purchase these. In 1898 it bought out two companies, one of which possessed 43 miles of tramway lines in the north of London. The Council left to the company the right of operation during 14 years. In 1898 the operation of the other tramway lines was begun. The Council bought up the lease of the other companies in 1906. It has now 136 miles of tramway lines, and its receipts are diminishing.

The London County Council likewise attempted to

operate, beginning with 1906, a line of boats on the Thames. The first two years the undertaking resulted in a deficit of £90,683 ($441,626). The service was abandoned one or two years later. The 30 boats, which had cost, in 1906, £7,000 each, were sold in a lot for £18,204. The Council also took upon itself the demolition and reconstruction of a certain number of cheap lodgings. Therefore, in the way of actual municipal industrial services, it has managed a boat line upon the Thames, demolished and reconstructed cheap lodgings, and is now operating tramways.

The partisans of public operation say, none the less, that, "in principle, municipal ownership has been accepted." Only those who are honest add "but public opinion has confined it within very narrow limits." Moreover, the elections of 1912 have kept the progressives in the minority.[1]

5. According to an article in the *Fortnightly Review,* of January, 1905, it is in Russia that local public ownership and operation have been most widely extended. The sale of agricultural implements, medicines, magic lanterns, translations of Molière and Milton, the expurgated novels of Dostoiewski, sewing machines and meat are among Russian public enterprises. It is said also that it is useless for cities to demand subsidies from the government. The stock answer of the administration to all requests for aid is: *Municipalize.* This advice is easy and costs nothing.

[1] Claude W. Mullins, *L'Activité Municipale de Londres, Revue Économique Internationale,* 1910.

6. Ownership and operation on a national scale have been most widely developed in New Zealand. The constitution of 1852 gave to legislators of that country all possible authority without other restriction than "to do nothing repugnant to the English law." Nor are their powers limited, as in the United States, by a supreme court.

New Zealand is isolated. It has no competitors. It has large undeveloped resources. It has a territory of 271,300 square kilometers (104,344 square miles), or more than half that of France, and a population of 1,044,000 people, or 4 inhabitants per square kilometer (10 inhabitants per square mile). Naturally the experiments of a restricted population, distributed over a vast area, have not the same importance as those attempted by a population of several million inhabitants concentrated within narrow boundaries.

In a work entitled *State Socialism in New Zealand* [1] Messrs. Le Rossignol and Stewart give us a complete picture of the Socialist enterprises which have been attempted there.

Most of the soil was originally government land. As we shall see further on, the government has not retained possession of it for the purpose of exploiting it.

The real development of governmental activity is chiefly due to the energy of one man, Sir Julius Vogel. At his instance a government life insurance system was established in 1869. In 1870 he outlined a

[1] *State Socialism in New Zealand*, by James Edward Le Rossignol, Professor of Economics in the University of Denver, and William Downie Stewart, Barrister at Law, Dunedin, New Zealand, 1 volume in 12mo, George C. Harrop & Co., London.

vast policy of public works, calling for an expenditure, in the course of 10 years, of £10,000,000 ($48,700,000), a sum which was actually doubled within that period. In 1876 he abolished provincial boundary lines, took over the land and the railways, and burdened the state with a fully developed administrative organization, the expenses of which were paid for by taxation, and carried out only with the help of loans and a heavy debt.

In 1879 New Zealand went through a crisis which would have ruined her if she had not been saved by the application of refrigeration to the transportation of meat. Even with that help it took her 16 years to recover.

I shall not speak here of the social legislation introduced by William Pember Reeves, from 1890 to 1895, which has frequently been remodeled.

New Zealand has owned the telegraph since 1865; the railways since 1876; the telephone since 1884. National coal mining and accident insurance were taken up in 1901, and fire insurance in 1903, at rates which render any competition impossible. From time to time the government has undertaken the operation of small industries, such as the purchasing of patents for the prussic acid process, a right to which the state leases to miners for a certain fee. The management of the oyster beds of Auckland, the establishment of fish hatcheries, the stocking of the rivers with trout, and the establishment of resorts for tourists and invalids are also among New Zealand government enterprises.

But, although New Zealand represents the maxi-

mum of effort in the way of Socialist enterprises, few industries are directly managed by the government.

"Scarcely a month passes," says Mr. Guy H. Scholefield, "without some convention passing a cheerful resolution demanding that the government should step in and operate some new industry for the benefit of the public. Now it is banking; to-morrow bakeries; over and over again some moderate reformers have called upon the government to become controllers of the liquor traffic; once upon a time it was importuned to become a wholesale tobacco-seller; more than once to purchase steamers to fight the supposed monopoly of existing lines." [1]

"But," say Le Rossignol and Stewart, "notwithstanding these demands, the feeling seems to be growing that the government should not move too rapidly in the direction of State Socialism."

7. In nationalization of the soil New Zealand has had an experience, the more interesting in that most of the soil was once government land. Ought the state to have conserved its interest in the land, or was its action wise in transforming it into private property? The following facts regarding this question are to be found in that remarkable work, *State Socialism in New Zealand,* from which I have already quoted.

The Hon. William Rolleston, who became minister of Public Lands in 1879, held that one-third of the crown lands ought to be leased in perpetuity for a rent of 5 per cent. of the value of land, with a revalu-

[1] *New Zealand and Evolution,* page 58.

ation every 21 years. The resulting resources might be applied to education.

The Upper Chamber granted the right of purchase at the value of the prairie land, or £1 per acre, after any prospective property holder should have cultivated one-fifth of his claim. Socialist legislation developed when the Liberal party, having acquired a majority in the elections of December 5, 1890, came into power on the strength of two issues, agitation against the great property holders, and agitation of workmen whose salaries had fallen since 1879 and who, in the month of November, had organized an unsuccessful strike.

John Ballance, head of the Cabinet in 1891, and John McKenzie, minister of Public Lands, were ardent partisans of government and property reform. Together they put in force five acts, one after the other, which have since undergone several modifications. Ballance, also a partisan of nationalization of the soil, was anxious that one-third of its lands should remain under the control of the state, to be leased by it, however, with periodic revaluation. His plan fell through. McKenzie granted leases for 999 years at a fixed rental of 4 per cent. on the capital value of the land at the time the lease was taken up, without revaluation. The area which could be held by one man was limited to 640 acres for first-class land, and 2,000 acres for second-class land. The system received the name of "the eternal lease." At this rate of lease, the government would lose more by way of land tax than it got by way of rent.

But, at the end of 10 years, the perpetual tenants

began to ask for the right to buy the freehold of their properties. The Labor party was constantly proposing a revaluation of rents. In 1907 the right of purchase was recognized, but under conditions of valuation which provoked the strongest resentment. The tenants maintained that the state's interest in the land was only the capitalized rental of 4 per cent. on the original value of the land.

The lease in perpetuity was abolished by the Act of 1907. However, under this system of leasing, which had been in force for 15 years, over two million acres of the best land in the colony had been parted with. In the place of the "eternal lease" was enacted the "renewable lease," a lease for 66 years, with provision for valuation and renewal at the end of the term with reappraised rent. But the public lands can always be sold immediately on the occupation-with-right-of-purchase system. It is therefore a mistake to believe that the government of New Zealand owns all its soil.

On March 21, 1906, the total area of 66,861,440 acres was held roughly as follows:

Freehold	18,560,000
Leased from Crown	17,000,000
Held by natives	8,250,000
Reserved for educational purposes and national parks	12,250,000
Unfit for use	7,000,000
Not yet dealt with	3,300,000

It is estimated that 63 per cent. of New Zealand families own property of £100 and above; and it is probable that 75 per cent. of the families own some

kind of property. A number of small properties are exempt from taxation. Those who are without property are young people earning large salaries who, with health and a fair chance, will achieve a good position in life.

The land laws have not only increased the number of proprietors, but, although they have had a Socialist aim, they have actually brought about anti-socialist results, since they serve to encourage the system of private ownership.

The Labor party advocates nationalization of the soil; but the tenants, supported by the freeholders, continue to demand the right of transforming their leases into property holdings. At a crisis they would insist upon a lowering of the rent. One witness, in 1905, made this profound observation before the Land Commission:

"I believe in the freehold because, in times of trouble, the freeholder is the man to whom the state will look; and the leaseholder is the man who, in times of trouble, will look to the state."

Messrs. Le Rossignol and Stewart, the authors of *State Socialism in New Zealand,* conclude:

"It is not easy to show that New Zealand has derived any benefit that could not have been obtained from freehold tenure combined with taxation of land values."

Conclusions

8. Except in the United States the telegraph and telephone systems are nationally owned and op-

erated. The coining of money is also a function of governments. The railways are government owned, either wholly or in part, in France, Germany, Austria-Hungary, Italy, Denmark, Sweden, and Belgium, but the extent of the private systems is greater than that of government lines.

Industrial operation by governments and municipalities is still very limited in scope. Nevertheless, it is already sufficiently widespread to make a conclusion possible as to whether the dreams of its advocates are being materialized, or their promises fulfilled.

BOOK II

FINANCIAL RESULTS OF GOVERNMENT AND MUNICIPAL OWNERSHIP

CHAPTER I

BOOKKEEPING IN STATE AND MUNICIPAL TRADING ENTERPRISES

1. Report of Gustave Schelle to the International Statistical Institute.—Denmark.
2. Receipts and Expenses of Public Operation in France; Costs of Construction.—Receipts and Expenses Outside of the Budget.—Special Accounts.—Capital Charges.
3. British Municipalities. — Belgium. — Sweden. — City of Paris.
4. Austria.
5. Conclusions.—Attempts to Organize Special Accounts for Government and Municipal Trading Enterprises Have Failed. They Are Incompatible with a Homogeneous Budget. Sane Budget Regulations and Public Operation of Trading Enterprises Are Contradictions in terms.

1. I have already quoted from the report to the International Statistical Institute, compiled by Gustave Schelle, former minister of Public Works, where-

in he discusses the financial situation of the various state and municipal trading enterprises, from which he has received reports, with all the authority of his official position, and with a mind which has remained both alert and independent throughout his administrative career. The difficulties in the way of estimating and comparing the value of such enterprises are very great.

In Denmark, for example, railway outlays for pensions and general administration and inspection costs are borne by the railroads themselves. For other enterprises such costs are met by the general budget.

Before 1904 and 1905 the postoffice and the telegraph yielded no net proceeds. In 1908-1909 this was also true of the mint.

No report is made regarding the interest charges upon loans for the establishment of such enterprises.

In 1908-1909 the results of municipal operation of gas, electricity and water were as follows:

COPENHAGEN

	Plants	Capital, Crowns	Net Proceeds, Crowns
Gas	4	30,636,000	3,247,000
Electricity	5	14,451,000	3,490,000
Water	6	12,392,000	632,000
PROVINCIAL CITIES			
Gas	57	13,144,000	1,640,000
Electricity	17	4,727,000	450,000
Water	50	10,873,000	839,000

In Holland, according to information furnished by M. Methorst, director-in-chief of the Central Bureau of Statistics, the cost of constructing the postoffice, telegraph and telephone systems amounted, on Janu-

ary 11, 1909, to 24,854,000 florins ($9,941,000). This capital bears an interest charge in favor of the public treasury of 3½ per cent., for the systems were established by means of public funds. Repayments are made periodically at a rate varying from 1 to 12½ per cent. The enterprise has a special double entry system, and no account is taken, in reckoning up receipts, of either free railroad transportation or official correspondence.

The funds for the operation of the Wilhelmina and Emma mines are supplied by the budget.

No information is given in the report concerning the financial results of municipal enterprises in Italy.

2. I quote literally the observations of M. Schelle concerning France:

A. Receipts and Expenses of Operation:

"In the case of the mints, the National Printing Office and the state railroads, the receipts and expenses of operation are placed opposite each other in budgets annexed to the general budget, and the difference in gain or loss is indicated only in this latter budget. The records of expenditures, however, as well as of receipts, are incomplete.

"In the case of the fiscal monopolies, the postal service and the official journal, the receipts of operation are included in the general receipts of the general budget, while the expenses are charged to the department under whose jurisdiction the enterprise may happen to be, without any comparison being made between receipts and expenditures.

"As for the other and less important industrial enterprises, the provisions of the general budget furnish no indication whatever of their condition. Tentative receipts are mixed with the receipts of other enterprises under different headings.

"Sometimes the expenses are deducted from the gross receipts, and the net proceeds alone figure in the budget; sometimes they are included in the expenditures of the department concerned, now and then without being in evidence. Information on the subject of these enterprises is impossible except in the final accounts."

B. Costs of Construction:

"The costs of construction, in the case of certain enterprises, are so mixed in the accounts with other expenses as to make it utterly impossible to disentangle them. Even where enterprises have been made the subject matter of the budgets called annexes, the budget documents and the final accounts for each year indicate only the increase in the expenses to be incurred during the year under consideration, without regard to the expenses of former years. In order to get at the amount of capital employed, it is necessary to examine the final accounts of all the years. The resulting labor sometimes recalls that of the Benedictines, and, moreover, is far from always yielding satisfactory results, whether by reason of the antiquity of the expenses or the impossibility of disentangling them."

C. Receipts and Expenses Outside of the Budget:

"Government undertakings keep no daily record of the requisitions made on them by other departments, so that important financial transactions do not appear.

"Certain utilities profit gratuitously from services ren-

dered them by other public or quasi-public enterprises; thus the postal and telegraph departments pay the railroads for but a small share of the services which they receive from them.

"Public enterprises do not pay rent for the use of government property, for the real estate they occupy, nor are they charged with the materials they use. On the other hand, the National Printing Office includes among its receipts, at a rate which is generally considered high, the amount of work which it does for other departments. It does not include among its expenses, however, the interest on the capital sunk in the buildings in which it is installed.

"The postal and telegraph facilities granted to ministers and various public departments do not figure among the receipts of the postal enterprises.

"Finally, among the annual expenses of the post and telegraph offices are included the subsidies paid to packet boats prompted, at least in part, by considerations altogether foreign to the mail service."

D. Special Accounts:

"When an enterprise possesses a technical equipment or a stock of merchandise, no document ever shows the true value of such equipment.

"Exceptions to the above are the special accounts published at the close of each fiscal year: 1st, in the match and tobacco monopolies; 2d, in the case of the state railroads. However the value assigned in these special accounts to stock and equipment is not a commercial value. It is a simple difference between the expenses of purchase and manufacture and the proceeds of actual sales.

"Moreover, the fixed capital, buildings, real estate, etc.,

of the enterprises enter into these accounts in the same manner as the stock of manufactured products, so that it is impossible to get at the capital really involved.

"Finally, the amount realized from sales of real estate, when there are any, is not deducted from the capital, such sales being made by the Government Lands Department.

"The accounts of the Government Railroad Department published each year are no more satisfying. Statements as to the costs of construction are to be found among them, but these include only those expenses contracted directly by the department, and no mention is made of the very considerable expenditures which are covered by the budget of the ministry of Public Works.

"The *Statistique des Chemins de Fer* is the only document which gives an approximate idea of the actual costs of construction of the state railroads and that of the small line of Saint Georges de Commiers à La Mure."

E. Capital Charges:

"It is not sufficient to know the amount of actual capital invested in an industrial enterprise in order to be able to form a correct judgment as to its management. It is also necessary to be informed as to the capital charges. Exact computation is impossible unless the expenses relative to each enterprise have been covered by special loans. We must be content, therefore, with an approximation difficult to make at this late day, because no care has been taken to make such an estimate each year since the enterprises were established. In order to make any progress, it would be necessary to estimate the applicable rates based on the price of government bonds or of bonds guaranteed by the government at the time when the various construction expenses were in-

curred. Expenses for building materials, etc., and for the installation and equipment of the various government enterprises have been a burden upon the Treasury since that date. This is evident in the case of the costs of construction defrayed with funds from loans not yet paid off. But it is true also of expenses paid for in this or that year out of the ordinary resources of the budget. These expenses may not be considered as paid off while a perpetual public debt exists, even though resources are at hand which might have been employed toward their extinction."

3. The municipalization of public utilities has considerably increased the expenses and debts of British local governments. M. Schelle declares, however, that he has been unable to obtain the data necessary to a compilation of statistics as accurate in character as the purposes of the International Institute would naturally require.

A portion of his report is devoted to the financial condition of the Belgian state railroad, of which we will speak later in detail.

In Sweden the principal state operations are the postal, telegraph and telephone services and the government railways. The receipts from the railways represent 1.30 per cent. of the average annual capital.

The City of Paris municipalized the service of burying the dead in 1905. In 1906 the receipts were 5,242,000 francs ($995,980), while the labor and equipment expenses were respectively 2,500,000 francs ($475,000) and 2,135,000 francs ($405,650), or a total of 4,635,000 francs ($880,650).

In 1910 the receipts were 4,660,000 francs ($885,-

400). The labor expenses had risen to 2,760,000 francs ($524,400) while those for equipment had been reduced to 1,765,000 francs ($335,350). At the same time there was an outstanding loan of 348,000 francs ($66,120)—a total expense of 4,873,000 francs ($925,870).

In the case of the quarry operated by the City of Paris the results are still more unsatisfactory, according to a report to the Municipal Council in 1908. The labor expenses are very much higher than in neighboring quarries.

4. An important part of the report is devoted to Austria, and is based upon a previous report drawn up under the direction of J. G. Grüber, by Dr. Rudolph Riemer, secretary of the Central Bureau of Statistics.

Outside the usual monopolies the Austrian government owns docks and mines and operates lotteries.

In most of these enterprises the costs of construction and of equipment are indicated separately in the final accounting, but only those expenditures made during any one year are to be found there, regardless of those of the preceding years. The items for determining how much of the original debt has been paid off are lacking. Interest and sinking fund charges on loans contracted in view of government operation do not figure in the final accounting in the chapter especially devoted to the particular industry concerned, but in a chapter issued by the ministry of Finance under the heading, *Public Debt and Administration of the Public Debt.* Special information in regard to the auditing of the public debt may be

found in the annual report of the special committee (Commission de Contrôle) managing the debt. But in this report the information touching interest and sinking fund charges does not inform us as to the actual application of the loan.

The same conditions prevail in the case of the public debt contracted for the benefit of the railroads. Our information covers only interest and sinking fund charges on the amortizable debt. But even that portion of the debt does not represent all the loans contracted for the benefit of the railroads.

According to the *Statistique des Finances de la Haute-Autriche et de Salzburg* (8th annual report) the expenses of all the towns of Upper Austria arising from the operation of their utilities amount to 4.44 per cent. of all their expenses. The costs of construction are quoted *en bloc* in a special chapter.

The result of M. Schelle's investigation proves that almost everywhere the data necessary in order to determine exactly the profits or losses upon state or municipal industrial operations are insufficient.

"Whatever be the end in view when states or municipalities organize industrial enterprises—whether the object be fiscal or economic, for the sake of the consumer or even in the exclusive interest of employees—it is indispensable to know whether these enterprises are actually resulting in profits or losses, and the amount of each.

"As far as the essential functions of the state are concerned, such as providing for public safety, public highways, etc., the establishment of special accounts would be impossible and without much value, inasmuch as these

services provide no opportunity for direct payment on the part of consumers. Such services derive no receipts, properly so-called, nor can they be abolished. When it is expedient to know whether the management of these activities is not too extravagant, it is necessary to proceed by contrasting one year with another, or by comparing certain items of expense with similar items in other countries, or in other localities.

"Public industrial enterprises are almost never essential, since they may be intrusted to private operation. They resemble private enterprises and provide opportunity for special receipts. It should, therefore, be possible to furnish to the taxpayers, in whatever concerns them, means of knowing the amount of income, just as opportunities for such information are afforded to the stockholders or creditors of any private concern. To pretend that the financial side of state or municipal enterprises should be neglected because such undertakings are created for the public interest is only an effort to sidetrack possible criticism. Public management, like any other, can be good or bad. If it is directed toward securing advantages, justly or unjustly, to this or that class of people, whether consumers or employees, it is at least necessary that those who are to foot the bills, that is to say, taxpayers, should know, personally or through their representatives, whether the contributions demanded are not exorbitant. Such a requirement should not be questioned in any country.

"From another point of view, how can the pretention be sustained that, in certain cases, the state or municipality can serve the public to better advantage than private companies when such states or municipalities do not furnish the public with adequate information concerning their administration.

Conclusions

5. "In fact," concludes M. Schelle, *"the efforts made to organize special accounts for state and municipal industrial enterprises have failed.* Public documents sometimes furnish precise enough information as to receipts or expenses of operation, but it is nearly always difficult to discover the amount of the costs of construction, and it is impossible to get any adequate idea of capital charges, interest and amortization." His observations, in regard to Denmark, Holland, France, and Austria, prove that in no respect do the accounts ever bring out the real gains or losses of state enterprises.

The difficulties encountered arise from the fact that a state or a municipality *cannot have more than one* budget. Moreover *all* the receipts should be entered on one side, *all* the expenses on the other. In this respect at least public organizations should be managed like private corporations. If these latter fail their creditors demand the amount of their claims at so many cents on the dollar. *A well-organized state should have only one purse, nor should any distinction be made between its various loans. All should be secured upon one single guaranty—its credit.*

Without a unified budget sound finance is out of the question. A special account for a state or municipal industrial enterprise can have only a fictitious value.

In other words, sane budget regulations and public management of trading enterprises are contradictions in terms.

CHAPTER II

THE BELGIAN STATE RAILROADS

1. Accounts.—Capital Charges.—Rates of Issue.—Review of Receipts and Expenditures.—Final Profits Do Not Contribute toward Balancing the Budget.—*The Budget Has Obtained No Advantage from State Operation of Railroads.*
2. Passengers and Shippers.—Increase of the Rate on Pit Coal.—Resolution of November 29, 1911.—Plan of M. Hubert.

1. Railroads are the most important industrial enterprises undertaken by a state. What, then, are the financial results of their public operation?

The Belgian state railway was established by the organic law of June 1, 1834. By reason of the length of time it has been in operation it has a right of precedence.

Marcel Peschaud has published in the May and June numbers of the *Revue Politique et Parlementaire* a remarkable study of the Belgian railways, but his analysis would lead us too far astray. I must confine myself, therefore, to a résumé of what M. Schelle has to say on the subject in his report to the International Statistical Institute.

The law of 1834 provided that a complete account of the operations of the railways be presented to the

Chambers annually, by which account are understood the receipts and expenditures, together with the use of the funds for the construction of lines placed at the disposal of the new department. The accounts thus rendered soon proved to be altogether inadequate.

In 1845 estimates of interest and sinking fund charges were added to the previous requirements. Controversies arose over these estimates, and it became necessary to change the system several times in order to settle the rate question. At the close of 1878 it was decided that the management of the railroads should make up a balance sheet in the form of commercial balance sheets. This was done, but capital charges were computed at a uniform rate based on a period of retirement of ninety years.

Moreover, according to M. Nicolai (*Government Railways of Belgium,* 1885) the cost of replacements and reconstructions was charged to the construction accounts without deductions for renewals and repairs. On the other hand, the annual payments for the purchase of lines which should have been charged to construction were charged to operation.

"Never," says the minister of Public Works (*Report for the year 1905*), "have the railway accounts, that is to say, the accounts prescribed by law, been found other than defective. On the contrary, the statements of conditions, the statistics, the estimates and reports, relating in part to such items as interest, sinking funds, pensions, etc. (which are not within the legal powers of the railroad department to pass upon), have never ceased to be the subject of the most lively discussions. Charges have been made in turn, or sometimes simultaneously, that

the profits were swelled and concealed, that there was too much red tape, even to the point of disregarding the essential rules of a business enterprise, or that there was not enough control, because the accounts were separate from those of the Treasury. The subject has furnished an inexhaustible theme of argument."

Of late years it has been decided that the data contained in the annual reports ought to be kept with the Treasury accounts, and that the balance sheets should be made up between the department of Public Works and that of Finance. The accounts for 1905 and the years following have been established upon this new basis.

As for capital charges met by enlarging the public debt, a rate of issue was adopted, which varied from 4.90 per cent. to 3.11 per cent. Then the government proceeded to publish, under the title of *"annexes"* to the financial report: 1". A general balance sheet for the year ending December 31, showing on the credit side construction costs since the beginning of the undertaking and the gross operating receipts and on the debit side the capital already retired and remaining to be retired, the amount of charges upon this capital, the dues and rents paid by the state railway system to other railroad enterprises, operating expenses and the profit and loss balance. 2". A separate account of operating receipts and expenditures for the preceding year. 3". A provisional account of operations for the current year, and of profit and loss, comprising, on the one hand, operating expenses, pensions charged to the

general budget, fixed charges, including yearly installments, and the portion of receipts due to companies whose lines are operated by the government; and, on the other hand, the profits of operation, properly so-called, together with various other profits. 4". A table recapitulating the financial results since the establishment of the system (1835) setting forth the annual balances in profits or in losses. 5". A table of interest and sinking fund charges from the beginning. Finally, tables of operating statistics.

As a result of the new system adopted the profit shown in a large number of the previous reports was transformed into a deficit.

The report for the year 1909 gives the following results, computed in francs:

INSTALLATION COSTS

	Francs
Lines constructed by the state	675,655,000
Lines constructed by contract	176,317,000
Lines purchased and completed	978,017,000
Completion of lines operated under rentals	10,293,000
Station structures	72,928,000
Surveys	18,547,000
Equipment	719,188,000
Total	2,650,945,000
Of which amount there has been retired by sinking fund charges	350,105,000
Difference	2,300,840,000
The difference was made up:	
By the funded debt	1,959,917,000
By annual appropriations for purchase	340,024,000
Total	2,299,941,000

Interest and sinking fund charges were computed, for 1908, at 94,015,000 francs and, for 1909, at 97,020,000 francs.

	1908	1909
Total receipts	269,362,000	281,532,000
Total expenses	182,391,000	190,540,000
	86,971,000	90,992,000
Deduct interest and sinking fund charges	94,015,000	97,020,000
Deficit	7,044,000	6,028,000

"To sum up," concludes M. Schelle, "if, from the very beginning, we compare the positive with the negative balance of each year, and add the sum, we find in 1908 a final net profit of 30,966,000 francs and in 1909 one of 24,938,000 francs."

The maximum net gains were 44,975,000 francs in 1910, and the maximum net losses 73,998,000 francs in 1886. During many years the summaries which now show deficits would have shown profits in the years previous to 1885.

The fancy that the state budget can ever be repaid for its outlay through the profits of the railroads no longer exists in Belgium.

M. Helleputte, minister of Railways, says in his preliminary note to the operating report of 1908:

"The operation of Belgian railways has undergone various fortunes. Since 1835—74 years—the balance has shown a deficit 36 times and 38 times a profit. Since the beginning of these operations the total profits exceed the total deficits only by the small sum of 31,274,000

francs, or an annual average of 422,600 francs for an average active capital of 778,733,000 francs, or .05 per cent., all of which amounts to saying that, up to the present day, the railroad has operated at cost."

The report goes on:

"If we take into consideration the accumulated interest upon the deficits, the amount of which had to be borrowed from the Treasury, and, if we deduct the debit balances, the apparent surplus gives place to a deficit of 86,836,000 francs, or an average annual loss of 1,173,000 francs—0.11 per cent. of the average working capital."[1]

During the great convention of Belgian manufacturers and merchants, on November 29, 1911, M. Cannon-Legrand said:[2]

"The Belgian government acknowledged a loss of 6,965,000 francs in 1907, more than 7 millions in 1908, and 6 millions in 1909. In 1910 we were promised a profit of 4,500,000 francs, which has now dropped to 2,790,000 francs.

"On the other hand, the capital investment has reached 2,731,000,000 francs, showing an average increase for the last three years of 50,000 francs per kilometer for the whole system (4,329 kilometers—2,706 miles).

"Thus, during the year 1910, the capital invested by the government in its railways realized exactly 0.10 per cent. This was an absolutely exceptional year, both in

[1] *Revue Générale des Chemins de Fer,* November, 1911, page 352.

[2] *Bulletin du Comité Central du Travail Industriel,* December 15, 1911.

volume of traffic and in freight and passenger receipts. It brought into the coffers of the railroads 27,725,000 francs more than in 1909, in which year the system had earned approximately 12,230,000 francs more than in 1908."

We are thus justified in concluding that the budget of the Belgian government has derived no advantage from the operation of railways.

2. But does not such operation redound greatly to the advantage of travelers and shippers?

The partisans of ownership and operation of railroads by the state are constantly harping upon the cheap rates of state railways, as opposed to the high rates established by private companies.

By an order issued on the 25th of October, 1911, the minister of the Belgian Railway department raised the rates on pit coal on the strength of a law of 1910, which, in its turn, found support in another law, passed April 12, 1835, which says:

"Temporarily, and while waiting for experience to guide to a final adjustment of the rates to be levied by the aforesaid road, in conformity with Article 5 of the law of May 1, 1834, these rates shall be regulated by a royal decree."

Now, Article 5, of the law of May 1, 1834, under which the Belgian system was established, reads: "The profits of the road accrue from the rates which are to be regulated annually by law." Thus, the law of 1835 is only a temporary expedient, which must be

renewed at certain dates. Although this *experiment* has lasted since 1835, the ministry considered that it needed a new lease of life.

Freight rates for pit coal were increased from 1 to 2 centimes per ton kilometer by tariff No. 61, which replaced tariff No. 31. The convention of Belgian manufacturers, on November 29, 1911, entered a protest against this increase in a series of resolutions from which we quote the following:

"The state is managing its railway lines from the sole point of view of making them serve as purveyors to its insufficient resources. *It is operating in defiance of rules essential to the prosperity of all commercial enterprise,* without any rational accounts of such a nature as will tend to keep it fully informed as to net cost."

In view of this resolution, toward the close of 1911, the conclusions in the 1907 report of M. Hubert, committee reporter of the railway budget for the third time, are evidently as true to-day as they were then:

"The management of the Belgian state railways has committed itself to a policy of political expediency which is sacrificing the general interest to interests purely local and electoral."

"The personnel is too large, ill paid, unwisely selected, and works overtime."

"Passenger service is both lacking in comfort and very slow."

"From the standpoint of rates, passenger service is favored at the expense of the shippers. The department repudiates all responsibility for the acts of its employees or the failure of its equipment."

"Far from trying to meet its patrons half way, the Railroad department maintains rates which are purely arbitrary, and shows itself violently opposed to any possible competition."

Finally, as spokesman of the Central Railway Division, M. Hubert concludes:

"It will become necessary to do what has been done in Holland,—viz., lease the railways, with conditions attached to the lease safeguarding the rights of employees and the interests of passengers. And it is certain that private enterprise would derive far better results from our immense railway resources than the government has been able to do. It is advisable that this outcome be seriously considered, since future possibilities indicate that such a course is unavoidable, if expenses continue to increase at the same rate."

Yet French engineers are unanimous in praise of the skill with which the Belgian lines are managed by the minister of Railroads and his distinguished coworkers.

CHAPTER III

PRUSSIAN RAILROADS

1. Governmental Distrust of the Railroads.—Obstacle Encountered by Bismarck in His Attempt to Organize an Imperial System.—Government Railroads.—The Reality of Prussian Railroad Profits.
2. Railways and Waterways.—Diverting Traffic.—Prussian Railways.—Discrimination Against the Rhine and Rotterdam.—Contradictions.
3. Prussian Railway Rates.—Political Methods of Conciliation.—Berlin's Milk Supply.—The Ticket Tax.—Rate Increase.—Baggage Rates.—German and British Railways.—Express Train Delays.—Rate Discrimination the Rule.—Comparison of Rates.—Lack of Responsibility.—Insurance.—Arguments in Favor of Prussian Railways.—Complaints and the Ministerial Reply.—Claims for Damages.—Operating Ratio.—Employees of Prussian Railroads.

1. In Germany, as everywhere else, the railroads inspired mistrust in the various state governments. There, also as everywhere else, the credit for their initial construction belongs to individuals. Up to 1843 the railroads received no subsidy whatever from any of the federal states. General state aid was withheld until about 1845, when a policy of government railways was introduced. In 1850 a number of states took over certain lines which were struggling under pecuniary embarrassment.

In 1874, amid an utter confusion of state and private roads, Bismarck conceived the idea of organizing an imperial system, of which the lines of Alsace-Lorraine, which had been already declared imperial, were to form the point of departure. In the desire, however, to prevent such a system of national railway lines, the southern states hastened to buy up the independent lines within their borders.

Bismarck then proceeded to concentrate all his efforts upon nationalizing the Prussian railways, trampling the private companies, which at that time possessed 44.5 per cent. of the system, unscrupulously under foot. As a result, there are to-day in Germany independent railways, state lines and lines belonging jointly to two or more states. The only imperial lines are those of Alsace-Lorraine. Private companies now possess only lines of secondary importance.

Bismarck had all sorts of reasons for acquiring the railways of Prussia. For example, he hoped to render himself more independent of the Prussian Diet if he had the railroad receipts at his disposal. The government had already begun a military line, but was encountering political difficulties in completing it. Bismarck's proposed state system was one way of putting an end to opposition of precisely this character. Finally, railway rates are an excellent protectionist instrument, actually serving the German government in that capacity. Rates are raised on importations and lowered on exportations.

It has been asserted frequently that the profits on Prussian railroads have been as follows:

1882	5.22%
1885	4.88%
1890	9.26%
1891	6.75%
1900	6.87%
1905	7.13%
1908	4.78%
1909	5.94%

The lowest percentage was 4.68 per cent. in 1883, but the operating expenses included no capital charges on the railway debt. If interest at 3 per cent. were included, and, if a small sum for a sinking fund were added, the profits would fall, for the period 1881-1895, to 2 per cent., and for 1897-1906 to 3.75 per cent. German government railways are exempt from all general taxation and are taxed locally only to the amount of 1,100 francs per mile, whereas, in Great Britain, the local taxation is more than 5,250 francs per mile.

The cost of construction of German railways has not been very heavy. The north of Germany is entirely flat. Not a single tunnel is to be found there. The cost per mile in 1907 was about 277,121 marks, while the average cost in Europe was 336,000 marks.

2. It is customary to speak very glibly in France of the harmony existing in Germany between railways and waterways.

An article which appeared in the *Revue des Deux Mondes,* in 1902, entitled *Les Voies Navigables de l'Allemagne,* by Alfred Mange, and two articles entitled *Le Rhin Allemand,* published by Paul Léon, in the *Revue de Paris,* on the first and fifteenth of Feb-

ruary, 1903, show that the facts completely contradict these assertions.

In the first place, in Germany, even more than in France, both the railway lines and the waterways follow a north and south course. It is not alone from this point of view, however, that traffic disputes may arise. Nearly every one of these rivers crosses several states whose interests are frequently diametrically opposed. The lower Rhine competes with the Prussian railways; but the railways of Baden, of the Palatinate, and of Alsace, says M. Mange, favor navigation on the upper Rhine by greatly reduced rates of transshipment and transit, in order that shipping may be diverted from the Prussian lines. The same condition of affairs exists in the case of the Elbe. In its lower course it competes with the Prussian lines, and in its upper course it is favored by the railways of Bohemia.

When railways thus favor ports of transshipment, they are not moved by an altruistic sympathy for the ship companies, but entirely by their conception of their own interests. The government railways of Prussia have established rates to fight such private companies as still manage to exist. When the Rhine was navigable only as far as Mannheim, the Baden government established there a port of transshipment, opened in 1875, for the purpose of diverting, in its own interest, Prussian and Alsatian traffic toward Switzerland. The Bavarian government made use of the Main to bring its railroads into connection with the ports of the North Sea, and to avoid making use of Prussian railways. The ports of Riesa and Dres-

den were established at the expense of the railroads of Saxony, that of Aussig at the expense of the railroad from Aussig to Teplitz; that of Tetschen and Lauda at the expense of the Austrian North West railroad; in each and every case to divert traffic from Prussian railroads.

M. Léon has outlined the complicated struggle of the Prussian railroads against the navigation of the Rhine. The differential tariffs established in 1863 are still employed by the state, and not tacitly, but openly. A circular, on the 30th of October, 1884, established the theory. The end in view, it says, is to "facilitate the importation of first-class material and the exportation of the products of national industry, as well as to protect the commerce of German ports against the ports of Holland." In order to divert from Rotterdam products of the iron and steel industry the government does not hesitate even to be incoherent.

"The Prussian railway," says M. Léon, has not contented itself with opening the Westphalian markets to its maritime ports by rate reductions, but it has closed them to Rhenish ports by raising the transshipment rates upon those lines which lead to them.

In order to divert from Rotterdam to Bremen the cottons destined for Derendorf, 6 kilometers from Düsseldorf, the railway charges 10 marks 50, or 17 pfennigs per ton kilometer. To divert the iron of Westphalia from Rotterdam a ten-ton load pays from Hagen to Hamburg, a distance of 388 kilometers, 72 marks, or 1.8 pfennigs per ton kilometer. From Hagen to Düsseldorf, or 59 kilometers, the railway

charge is 31 marks 50, or 5,3 pfennigs, per ton kilometer.

Is patriotism the sole motive which drives the Prussian railroads to struggle in this way against the navigation of the Rhine? Then why do they weaken the effect of such an argument by favoring importation into Holland if use is made of their cars? From Rotterdam to Bochum, 23 kilometers, a car of 10 tons pays 35 marks, or 1.5 pfennigs, per ton kilometer. By way of the Rhine only 13 marks is paid as far as Ruhrort, or .8 pfenning per ton kilometer, but for the 35 kilometers from Ruhrort to Bochum the railroad charges 16 marks 50, or 4.7 pfennigs, per ton kilometer.

The Prussian railways favor navigation on the Holland canals for the transportation of the coal that they deliver to the frontier. At the same time, in order to put obstacles in the way of mixed transportation, partly by rail and partly by water, as well as for the purpose of deflecting traffic from Baden railways, they grant to Mainz and to Frankfort transshipping rates that they refuse to Ruhrort or to Düsseldorf. Then there are mineral rates for Bavaria, iron and steel rates for Switzerland, petroleum rates for Württemberg, sulphur rates for Nüremburg, etc.

The exceptional tariffs of the Prussian system affect 63 per cent. of the total kilometric tonnage and 46 per cent. of the total receipts of the Prussian state. Their average rate is 2.6 pfennigs, instead of 5.11 pfennigs, the regular tariff figure.

The chambers of commerce of the Rhenish cities protested against such discrimination, and the cham-

ber of commerce of Duisburg scored the policy of the Prussian railways in the following terms:

"We admit that every group pursues with energy the defense of its own interests; we do not admit that such a policy may hide behind the fig-leaf of national interest."

Such, when examined in detail, are the facts which utterly contradict the legend of harmony between the Prussian state railways and the waterways.

3. In the *Journal of Political Economy,* of Chicago, Hugo Meyer has cited a fact which shows how accommodating it is possible for a government railroad to be. The rate upon milk had been so established as to prevent any shipment of milk to Berlin from a distance greater than 75 miles. As a result of this tariff the milk supply for the capital was concentrated within an average radius of 50 miles. This rate was established in the interest of the *Berliner Milch Central,* founded by members of the Association of Farmers (Bund der Landwirte), one of the most powerful political leagues of Germany. In order to conciliate this organization, the government remained deaf to the complaints of the retail merchants. A plan was formed to bring milk to Berlin from Denmark by tank cars. The government declared, however, that milk was not among those articles for which transportation in tank cars had been provided; and it imposed such conditions and such formalities that the originators of the scheme were compelled to give up the attempt.

The Prussian government acts upon the principle that it is not necessary to obviate "the natural disadvantages of the distant producers." According to this rule, in the interest of the market gardeners of Paris and its suburbs, Parisians should be forbidden to consume, or at least should be made to pay exorbitantly for, the fruits and vegetables coming from the south or from Algeria.

The Prussian railways have a fourth class, lacking in almost every comfort; although the average length of travel in the third and fourth class is from 20 to 24 kilometers (13 to 15 miles). In 1907, during a temporary embarrassment of the budget, the government laid a duty upon railway tickets and abolished return tickets on all German roads.

In the discussion over the budget of 1911-1912 the minister of Finance described the effect of these innovations on the Prussian railroads. They had produced a reduction in the amount of first-class travel, the total receipts having fallen from 23,250,000 francs, in 1905, to 20,125,000 francs, in 1909, while, in the way of normal development of traffic, an increase equal to this reduction of 3,125,000 francs might have been looked for. There was also a reduction in the amount of second and third class travel, and a drop from the third class into the fourth class, which is exempt from taxation. Third-class passengers were paying a rate 50 per cent. higher than the fourth class, while first-class passengers were paying 300 times more.

In Belgium and Germany, since 1907, the railways have not carried any free baggage. During a journey

in Germany my traveling companion and myself had each to pay in round numbers 180 francs for our tickets; but to this sum must be added nearly 60 francs for the 40 kilos (88 lbs.) of baggage of my traveling companion, and more than 72 francs for my 50 kilos (110 lbs.). This additional charge raised the cost of transportation in my friend's case 33 per cent., and in mine 40 per cent. When the price of tickets upon German lines is compared with those upon French lines it is necessary to take into account the 30 kilograms (66 lbs.) of exempt baggage allowed the traveler on the latter.

The charge on all checked baggage has another inconvenient aspect. It drives the traveler to carry by hand as much baggage as possible. Such a practice, of course, crowds the carriages and incommodes the passengers. This condition has made necessary a new rule, applied with rigor in Switzerland, forbidding a passenger to bring into railway carriages baggage exceeding specified weights and dimensions. Edwin Pratt[1] quotes a letter, which appeared in the *Daily Telegraph,* of February 22, 1908, signed by an Englishman, Mr. W. A. Briggs, who had lived in Germany:

"The service is only half as frequent as ours and the fares only a trifle lower. They have been raised twice during the last few years. If anyone thinks that a government runs railways for the benefit of the public he is much mistaken. Goods (freight) trains are both infrequent and notoriously slow. Urgent goods are not

[1] *Railways and Nationalisation.*

recognized unless one pays double freight. Cheap excursions are unknown.

"Finally, the red tape is atrocious. Any unfortunate wight who rides past his station is mulcted in the difference and fined 6 shillings on the spot. No excuses are available. If you overload a goods wagon you are fined pounds for a few hundredweight put in on a dark winter evening to empty a rulley. Demurrage is relentlessly enforced and you are made to feel that you are dealing with permanent government officials who do not give a straw for your convenience. I once had a parcel of 1 cwt. sent from Strassfurt to Hamburg and when it arrived the note was stamped and countersigned by no fewer than 22 different persons."

On February 23, 1912, the Prussian railway administration decided to refuse all parcels during several days. The administration has relieved itself of all details of commerce. Goods must be delivered in bulk and removed as such. There is no interval of grace allowed either at departure or at arrival.[1]

By express the transportation of merchandise requires one day for shipping formalities, and one day to transport it 300 kilometers (187½ miles), or any part thereof, however small the fraction. That is to say, it would take three days to transport a package from Paris to Laval, a distance of 301 kilometers (188 miles).

[1] *Report on Railways in Germany*, by C. H. Pearson and Nicholas Reyntiens, for the Board of Trade Conference, June 7, 1909 (Cd. 4677).

See for the series of discussions concerning the Prussian railways the collection of *Marche Financier*, by Arthur Raffalovich, and the *Revue Générale des Chemins de Fer*, among others, the number for November, 1911.

Special tariffs are the rule in Germany. They form a collection of 915 volumes, which cost from 5 pfennigs to 6 marks each. Seven hundred and eight are devoted to merchandise, 120 to live stock, 367 to coal. This great variety of rates drives the shipper to commission houses and insurance agents for information and protection.

Ordinary merchandise is not considered as wrapped unless it is contained in strong wooden boxes, or very solid hampers. Unless he complies with these conditions the German shipper is forced to sign a declaration that his packages are either not wrapped, or are insufficiently wrapped, in order to relieve the railroads from all responsibility.

Although by slow freight the ton kilometer of merchandise pays to the Prussian state railways an average rate of 4.59 centimes, while in France it is 4.57 centimes, do not be deceived by the .02 centime difference, which is due in part to the bulk and long hauls of heavy and cheap commodities; and also to a custom of grouping which brings together merchandise of various sorts and ships it in full cars, thus saving the railroad department expenses of handling. The department disclaims any responsibility whatever, the shipper having to insure himself with some company. Moreover, in order to discourage future claims, the department imposes a tax of 1 mark on each complaint.

When British and German railway rates are compared it is usual to forget the short distances covered by the British rate, an average of 35 to 40 miles.

Edwin Pratt is my authority for the following

typical example of the tactics employed by the partisans of railway nationalization in Great Britain.

Mr. William Field, a member of the Railway Nationalization Society, founded in 1907 in the United Kingdom, published, during the same year, a pamphlet entitled, *The Nationalization of Irish Railways; Defects of the Present System.* In it he has reproduced a little table previously published in a tract of the Fabian Society in 1899, and borrowed originally from a work by Sir Bernard Samuelson, published in 1886. Yet the fallacies on which Sir Bernard Samuelson's report was mainly based had already been thoroughly exposed in the same year in which it was issued by the late Mr. J. Grierson, general manager of the Great Western Railway, in the appendix of his book, *Railway Rates, English and Foreign.*

Grierson says:

"Sir B. Samuelson's report contains many errors of detail. Comparisons throughout have been made without due regard to the conditions attaching to the rates, or to the different circumstances under which the traffic is carried . . . . In almost every instance Sir B. Samuelson has taken the lowest rates in Germany, Belgium, and Holland, which are applicable only to full truck loads of 5 and 10 tons, and, in some cases, viz., Belgium, to a minimum weight of 8 cwt. These he has used for the purposes of comparison with English rates for any quantities over 500 lbs. . . . In some instances Sir B. Samuelson has not included in the foreign rates the charge for loading and unloading. . . . Such are some examples of the errors vitiating the comparison."

Now, even though accurate, 22-year-old rates would have no value. When they are applied to transportation operated under conditions altogether different they are used either in ignorance or bad faith.

Lord Avebury, in his book, *On Municipal and National Trading,* says of the German railroads:

"It is a mania to harp on the cheapness of German rates. Dr. Benmer, editor of *Stahl und Eisen,* has calculated that the transportation charges in England are 10 per cent. of the total cost of producing iron, as against 23 per cent. in Germany."

M. Kaufman, in his remarkable work upon the *Politique Français en Matière de Chemins de Fer,* opposed to the refusal of the Prussian government to lower the rates of transportation, "because of the financial situation of Prussia," the reduction upon express rates accomplished in France in 1892.[1]

In 1909 the German *Centralverband,* numbering representatives of the largest industries of Germany, expressed its discontent with the fact that, while private companies were reducing rates, the Prussian government lines were raising them. In the discussion over the budget of 1911-1912 Deputy Mano said:

"For forty years I have followed the fluctuations in the rates on merchandise. During prosperous years, when industry and the railroads are thriving, the department says: 'Your business is all right, therefore you have no need of rate reductions.' In times of depression

[1] See Yves Guyot, *Trois Ans au Ministère des Travaux Publics.*

it answers: 'Business is as bad for the railroads as for you; therefore we cannot reduce the rates.'"

To the above criticism the minister of Railroads contented himself with the reply that, as the increase in the capacity of the cars introduced within late years had sensibly diminished the net cost of transportation, the time had not yet come to consider a general reduction of freight rates. In any case, "Rate reductions ought not to be based upon financial results favorable to operation. Rate reductions can be considered only when the annual revenues shall have reached such a sound basis as to offer a sufficient guaranty against unfavorable years."

Let us see what this sound basis of annual revenues is: The profits of the railways were formerly used to pay the interest on the government debt, of which 88.4 per cent. in 1899, 82.38 per cent. in 1905, 74.72 per cent. in 1909 was caused by the railroads.

Up to 1910 the Prussian general budget received nearly the entire net earnings of the railways, with insecurity, instability, and trouble in the whole budget situation as a result. In 1907 the net earnings fell below the preliminary budget estimate by 96,000,000 francs and in 1908, 190,000,000 francs. For 1909 on the contrary, following a pressure of freight traffic, the receipts improved by 130,000,000 francs. This improvement was due, in part, to an actual saving of 25,000,000 francs.

According to a report for the preceding year the increase of traffic during the period between the first of April and the end of November, 1910, was 5.97

per cent. for passenger traffic, and 7.34 per cent. for freight, or an average for all traffic of 6.66 per cent.

Railway receipts are dependent upon the economic activity of the country. As a compensation for this contingent and disturbing element in the Prussian budget it was decided, at the beginning of 1910, that out of the profits available after paying for interest and the amortization of the railroad debt there should be devoted: first, to the special budget of the railroads, 1.15 per cent. at least upon the reported capital of the system, or actually 150,000,000 francs ($28,500,000); second, to the general state budget, in order to make up its deficits, 2.10 per cent. of this same capital, or 275,000,000 francs ($52,250,000).

The surplus was to be devoted to a regulation (or compensation) fund destined to complete the payments to the general budget in the bad years, when the net income would not be sufficient to meet fully the above-mentioned payment of 2.10 per cent. to the general state budget.

M. Friedberg (a National Liberal), before the Chamber of Deputies, and M. de Gwinner, director of the German Bank, criticized this reform before the upper chamber. Looking at the situation from the point of view of a state budget with a deficit, obliged to have recourse to a loan, probably to a tax, they demanded why so important a special railroad budget should be constituted at all. The Minister of Finance, M. Lentze, observed that every year the railroads demand reconstruction, improvements, additions, rolling stock, transformation of secondary lines, etc.

Either the railways must live on their resources or they must have recourse to a loan. The state budget will be protected from excessive fluctuations in receiving 2.10 per cent. of the capital in support of the general budget. For 1910 it was due to receive 35,000,000 francs ($6,650,000).

The ministerial plan was adopted.

The operating ratio was 61 per cent. in 1900; it rose to 74.62 per cent. in 1908. M. Lentze considered it a triumph when it fell to 68.99 per cent. in 1909, to 68.50 per cent. in 1910. It was computed at 68.63 per cent. for 1911. The Minister of Railways asserted that, in face of growing demands on the part of employees and of traffic, another rise must be anticipated.

Despite the high operating ratio certain economies have been criticized. Naturally the department has been reproached with not having treated its employees fairly. Its answer has been that 60 per cent. of the total expenditures of the railroad are absorbed by employees. Thirty-seven thousand employees, or 12.3 per cent. of the total number, are earning from 1,875 francs to 2,250 francs a year, and 86,000, or 29.2 per cent., are earning from 1,500 francs to 1,875 francs. Six thousand new positions were created in 1912.

In Prussia the administration is strong and Parliament is weak. Therefore it is the minister who says: "Our action will continue to be energetic with regard to those groups trying to foment agitation." The Department of Railways jealously guards its employees

from any spirit of disorder capable of bringing about a strike. As for the employees they are bound by the clauses in their contracts, which each man reads and signs, to hold themselves aloof from all agitation hostile to order.

CHAPTER IV

STATE RAILWAYS OF AUSTRIA AND HUNGARY

1. Variations in the Government Railway Policy of Austria.—State Operation a Sorry Affair.—Superiority of Private Enterprise.
2. The Railways of the Hungarian State.—The Zone System.—Political Aim.—Increasing Rates.—Insufficient Equipment.—Increasing Expenses.

1. The policy of Austria in regard to the railways has undergone many variations. In 1850 the government owned 61.38 per cent. of the railway lines. In 1855, however, imitating the example of France, which came to terms with the important companies, and, having need of resources, it sold its railways. Hence in 1860 it owned not more than 0.44 per cent., and in 1870 only 0.21 per cent. The economic development of Austria was slow; the railroads not very prosperous. The crisis of 1873 drove the government to constructing railroads. In 1880 it owned 17.23 per cent. of the lines; in 1890, 43.51 per cent.; and, in 1906, 67.95 per cent., or 21,600 kilometers (13,500 miles).

The operation of railways has been a serious drain on the state. In 1906 they yielded 2.85 per cent., and, in 1907, 3.01 per cent. But this sum includes neither interest nor sinking fund charges. In fact, operation

of the state railways has not paid expenses, and has been a burden upon the Treasury. The lack of receipts is chiefly due to low freight rates.

Charles Lee Raper says:

"They (the freight rates) have been much higher than in the United States, though the character of the traffic of the two countries has had much in common. Both have had a large volume of the low grade commodities. It would, therefore, seem to be fair to say that the Austrian state service has not been notably successful in its cheapness."

The superiority of private enterprises in Austria has been established by an investigation conducted by the British Board of Trade. Four private companies have never had to resort to a guaranteed reserve fund. During the period 1902-1906 one of them did not earn dividends on its capital; the second earned from 4 per cent. to 5.25 per cent., the third from 5.4 per cent. to 6.6 per cent, while the fourth earned from 11 per cent. to 12 per cent. And all these companies pay taxes to the state.

2. In 1889 Minister Baross established the zone system in Hungary. Bitter adversaries of the mileage (paliers) system were enthusiastic over the idea of introducing the zone system. The zones are only more extended units of distance than the 10 kilometer (6 miles) section of the Paris-Lyons-Mediterranean railway line of France—a privately owned line. The introduction of the system was simply a political move, for the real object was to attract to

Budapest those Hungarians who lived in the far corners of the land, in order to make them admire the capital, and thus give them an exalted idea of the greatness of their country. In 1896, at the time of the Millennial Exposition, the railroads carried for nothing, and, I understand, lodged and fed entire families at Budapest. However, as a species of compensation for its complaisance in thus accommodating the country-folk, the railroad had increased the price of tickets for short distance traffic during the preceding year.

In 1903 other changes took place. As it has failed to yield the anticipated results, Hungary recently, in large measure at least, has abandoned the system introduced by Baross.

The average receipts per passenger per kilometer in six European states have been: (One heller equals $0.002.)

	Hellers
Hungarian railways	2.9
Austrian railways	2.8
Prussian railways	2.8
Bavarian railways	3.0
Holland railways	3.4
Roumanian railways	4.4

Financial returns upon the Hungarian state railroads were as follows (in 1,000 crowns; 1 crown equals 20 cents):

	Capital	Surplus	Interest at 4%	Net Surplus
1888	984,785	37,074	39,391	–2,317
1898	2,042,613	83,850	81,704	2,146
1906	2,402,775	115,543	96,111	19,432
1908	2,527,863	91,493	101,114	–9,621

The service upon the state lines of Hungary during late years has given rise to numberless complaints: lack of comfort, insufficient rolling stock, too frequent delays, and numerous accidents.[1]

The former secretary of the ministry of Commerce, Joseph Szterenyi, in an address delivered before the Chamber of Deputies in 1912, stated that from 1890 to 1909 the number of passengers on the railways had increased about 300 per cent. During this period there have been years in which the increase of traffic has corresponded to the increase in the number of cars in the following ratios: 9.5 per cent., as against 2.5 per cent.; 8 per cent., as against 4 per cent.; 10.6 per cent., against 0.5 per cent.; 9 per cent., against 0.5 per cent., and even 11 per cent. against 0.1 per cent.

The available number of locomotives is even less satisfying. While the volume of traffic has increased about 51 per cent. the number of locomotives has increased only about 21 per cent. In 1909 it was estimated that 606 more locomotives would be necessary, in order to take care of the normal traffic. A number of locomotives then in use were over 35 years old. Although passenger traffic has increased in Budapest, at the eastern terminal about 550 per cent. and at the western terminal about 900 per cent., and although freight traffic has grown approximately 100 per cent., it is only recently that any particular effort has been made to improve the conditions mentioned.

From 1865 to 1907 the operating ratio increased

[1] *Der Zonentarif der Ungarischen Staatsbahnen,* by Rudolph Remengi, 1912, published by J. Benko, Budapest. Discussed in the *Journal des Économistes,* July, 1912.

from 55 to 77 per cent., and amounted to 80.6 per cent. in 1908.

Beginning with 1893 the cost of labor has increased by leaps and bounds. In 1904 the employees went on strike and stopped the trains, asserting that the increase of salary voted by the Chamber of Deputies was too small. Two separate awards of an increase in salary, the one in 1904 the other in 1908, have brought the total amount to 22,000,000 crowns.

Following changes in the locomotive service in 1906 there has been an increase in the consumption of coal of about 13 per cent., representing 4,000,000 crowns, and equaling a work increase of 30 per cent.

Maintenance expenses of locomotives and cars give the following figures: per locomotive, in 1905, 3,003 crowns, and, in 1909, 4,530 crowns; per passenger coach, from 640 to 820 crowns; per freight car, from 96 to 134 crowns. The working efficiency of the average car has fallen from 48 per cent. to 37 per cent.

In 1909 the excess of receipts over expenditures was less by 43,000,000 crowns than the sum necessary for interest and sinking fund charges. The zone system has recently been altered, in the hope of realizing more than 15,260,000 crowns.[1]

[1] *Journal des Transports*, September 28, 1912.

CHAPTER V

ITALIAN RAILWAYS

1. Purchase of Italian Railways.—Operation by Private Companies.—Government Interference.—The Law of June 22, 1905.—Extent of the Italian System—Efforts of M. Bianchi.—Railroad Accounts.—Furnishing Employment.—Waste.—Labor.—Operating Ratio.—Rates.—Special Tariffs and Commodity Tariffs.—Favors.—Parliamentary Control, and the Position of the Minister.

At the outset Italy was induced by political motives to become a railroad proprietor. Before 1860 the lines were only local. After the adoption of the constitution of the kingdom, the state bought up the stock which was owned by Austria in the northern railways, and took over the issue of the preferred stock to continue the construction of them. But the government had no capital at its disposal, and had pressing financial needs. In 1865, therefore, a law directed the sale of the state lines to private companies. Two hundred million lire ($38,000,000) was realized by the state from the sale.

The existing system was distributed among four companies, known respectively as the West, the East, the North and the South, but the division of territory between them was ill defined, and they were at

odds and enemies. Moreover, the railways of upper Italy proved to have been handed over to two companies with neither resources nor credit. These lines were therefore repurchased by the state in 1875-1876 for political reasons, and the state took possession in 1878. The proprietors of the southern lines became known as the Adriatic Company in 1885. For a time these lines were not interfered with.

In 1878 3,000 kilometers of the 5,100 kilometers of railroad in Italy belonged to the state. The ministers (Minghetti and Spaventa) who had negotiated the purchase, had intended that the state railways should be operated by private companies acting as government agents. In 1878 a new ministry appointed an investigating commission which, at the end of three years of work, submitted a monumental report (1881) containing the recommendation that the state railways be leased to private companies for a fixed period. The commission declared most emphatically that the state ought not to operate them itself:

1.° Because the state performs very few functions with greater efficiency or at a lower cost than private enterprise is able to do.

2.° Operation of railways by a state is more difficult than by private companies, a conclusion clearly established by the investigations made by the commission.

3.° The state is far more apt than are private companies to force changes in industry rather than to foster natural development by offering more efficient service.

4.° The danger of political interference in the administration of the railroads is very great.

The secretary of the commission above referred to, who became Minister of Public Works in 1884, leased the state lines to three companies, the Mediterranean, the Adriatic, and the Sicilian, for twenty years, with a possible extension of the lease. Of the 10,066 kilometers of railways in Italy at that time, 9,364 kilometers were thus allotted. In 1905 the system covered 12,827 kilometers (8,017 miles).

The companies had paid the state 275,000,000 lire ($52,250,000) for their equipment, but on condition that at the expiration of the lease this equipment should be repurchased from them. They guaranteed to devote the 5 per cent. which the state had been paying on the original loan toward the upkeep of the equipment. The ordinary expenses were to be borne by the state, the extraordinary expenses by the company. This distinction provoked numberless discussions.

A division of profits between the companies and the state was arranged for, and a reserve fund established as a provision for extraordinary works. But, after 1884, in place of an increase in receipts, there was a deficit. Hence the government, instead of taking in, was obliged to pay out.

In doubt as to the future action of the state regarding them the companies were working under the worst possible conditions in a country deficient in agricultural and industrial products. The taxes were heavy and the returns small. Then among other causes for the decreasing receipts was the rate reduction imposed by the state upon the companies, although theoretically it had no legal right to propose such a

step. In the end it was required to make up the difference which resulted. Transportation had been thus ruined and at the expense of the taxpayers. Moreover, by continuing its intervention in the fear of a strike among the railroad employees, the government proceeded to impose new burdens upon the companies, and incidentally introduced a spirit of insubordination among the men.

Conditions were now ripe for the Socialists in Parliament, and they passed without much discussion the law of the 22nd of April, 1905, ordering the immediate return of the railroads to direct operation by the state. This law had been prepared by a commission appointed in 1898, whose report, in nine volumes, had appeared in 1904-1905. A law of 1907 now provided for the purchase of 2,300 kilometers (1,438 miles) of the southern system.

The total cost of the railroads in Italy had reached, in 1907, more than 6,000,000,000 lire. In order to rehabilitate the system thoroughly, Parliament voted a further sum of 910,000,000 lire, which had to be spent in Italy before 1911. This made a total of 6,910,000,000 lire ($1,312,900,000). These Italian lines, for each 100,000 square miles of territory, had a length of 4.19 miles in 1875; 5.8 in 1885; 8.8 in 1900, and 9.3 in 1907-08, when Great Britain had 19.06. For every 10,000 inhabitants there were 1.7 miles of Italian railway in 1875, 2.17 in 1885, 2.9 in 1895, and 3.16 in 1907, in which year, in the United Kingdom, the figure was 5.58.

From the very outset the disadvantages of state operation made themselves felt. The roads were

never free from unwarrantable political influence and the equipment was woefully defective for lack of proper supervision.[1]

It had been expressly declared at the time of purchase that the state system should have a management entirely free from governmental and parliamentary interference. *L'Italia,* on the 28th of May of the same year, observed that Bianchi, general manager of the state railways, manifested the utmost skepticism regarding the possibility of organizing state railway operation in any effective and positive manner in Italy.

His fears proved well grounded. Among other reforms the department was anxious to introduce a code of discipline among the workmen in its shops. The deputies, however, murmured. They took their grievance to the Minister of the Interior, who referred it to his colleague, the Minister of Public Works. Ultimately M. Bianchi was informed that it would be necessary to revoke such measures as he had already taken. Naturally, feeling themselves thus supported, the workmen redoubled their insubordination, which spread also among the mechanics and the other employees.

At the end of a year M. Bianchi stated that the affairs of the railroad were worse than they had been in the beginning. Instead of being held to account for the good of the service, he was completely under the thumb of all those whose interests were opposed to the real interests of the railroad, provided they had sufficient influence in Parliament.

[1] See *The Economist,* November 4, 1911.

The net returns of the state railways, passing over the year 1905-1906, when conditions were abnormal, are as follows:

Fiscal	Lire
1906-1907	43,000,000
1907-1908	37,000,000
1908-1909	20,000,000
1909-1910	37,000,000

The increase from 1908-1909 to 1909-1910 is to be credited to bookkeeping artifices designed to conceal the real condition of affairs.

Have the improvements been proportionate to the expenditures since the passage of the law authorizing the purchase?

The purchase was coincident with several years of economic activity. Operating receipts increased 29 per cent. in 1905-1906 over 1900-1901; 11 per cent. in 1906-1907 over 1905-1906; 11.5 per cent. in 1907-1908 over 1906-1907. But this increase in receipts was completely absorbed by the increase in expenditures.

Before 1905, when a reduction was made in the rate of taxation, the companies were paying to the government 65,000,000 lire. To-day they would be paying 80,000,000.

The law of 1909 exempted the state railways from certain expenses, which, according to Engineer Ancona, who is also a deputy, amounted to a relief of 24,000,000 lire. This makes it necessary to reduce the 37,000,000 lire—the last figure in the above table—to 13,000,000 lire. A further lessening of the expenses for 1909-1910 comes from a reduction in the

charges for renewal of equipment of from 4 per cent. of the gross receipts to 2½ per cent. This makes another reduction of from 8,000,000 to 10,000,000 lire, which, added to the 24,000,000 mentioned above, amounts to a reduction of from 32,000,000 to 34,000,000 lire. There were similar reductions in the expenses during 1910-1911.

The state has received no revenue from its capital of 6,000,000,000 lire expended for construction, purchase, and restocking the railroads. To this sum must be added, also, 1,000,000,000 advanced by the Treasury for their benefit. The railroads have been paying interest and sinking fund charges on the loan, but the department intends to be relieved from this responsibility. It has recently demanded 30,000,000 lire a year for the purpose of doubling its lines.

The law governing the operation of Italian railroads recognizes very distinctly that the fundamental duty of state operation is to furnish work for the national foundries and lumber yards. Naturally, the Railway department must fulfill this duty rather than consult the real needs and resources of the railways.

Contractors bring all possible influence to bear upon the deputies, who care for nothing but public opinion. If there are no orders there is no work for the employees for whom the state is bound to furnish work. Moreover, shutting down shops means ruin for the manufacturers. Therefore, the minister orders rolling stock without troubling himself to provide sidings. Whereas, in 1899, the companies possessed an average of 62 meters of siding per empty car, the

state, in 1909-1910, lowered the proportion to 25.1 meters, although 50 meters had been considered indispensable for each of the 9,000 cars forming the reserve. Quantities of cars were falling to pieces on the tracks for lack of use; nevertheless, the department contracted for an annual delivery of 5,000 cars. The manufacturers persuaded Minister Luzzatti to raise this order to 8,000 cars. The general budget committee, however, had the courage to reduce it to 4,000 cars, costing 29,000,000 lire ($5,510,000).

Experts have estimated that all this expense might have been spared by a more rational use and better care of the existing cars; 15 per cent. of the freight cars are constantly under repair, and 33 per cent. of the passenger cars.

The Italian taxpayers pay a full third more for their rolling stock than if they bought it abroad. Moreover, there is no redress for delays in construction and other errors on the part of the contractors, because political influence returns all the fines provided for in the contract. The law says that orders are to be divided as equitably as possible among the various manufacturers of the same product. As a consequence of this provision we find a legally organized trust, although such coalitions are forbidden. Naturally, this trust is not interested in insuring an economical expenditure of the state finances.

Here are some facts which have never been denied in parliamentary debates: Old locomotives repainted are bought for new. Concrete ties, which break at the passing of trains, and soft spruce ties, the objects

of useless attempts at reënforcement with the aid of injections of creosote, are bought by the tens of thousands. Orders of 15,000 kilograms (33,000 lbs.) of gum arabic, 200 kilometers (218,733 yards) of red velvet, a million straps, etc., are recorded, and so on.[1]

Of course, labor plays an important rôle in the increase of expenses, and in Italy, as in France, the Railway department congratulates itself upon this state of affairs, an excuse being thus presented for ever new demands on its part. The report for the fiscal year 1910-1911 says:

"During the period 1902-3-4 there was an average of 104,833 employees, both regular and special, earning an average of 1,360 lire a year, while in 1910-1911 we have had, on an average, 143,295 employees, including those engaged in repair work but excluding those on the navigation service lines in operation on the 16th of July, 1910, with an average outlay for each of 1,622 lire. If the employees in 1910-11 had been paid at the same rate as in 1902-4 the expenditures would have been lessened by 37,700,000 lire ($7,163,000)."

This might be a regrettable state of affairs, from the point of view of the railroad employees, but less so from the point of view of the taxpayers.

The operating ratio has fluctuated as follows: 1885, 67 per cent.; 1890, 68 per cent.; 1895, 75 per cent.; 1903, 68 per cent.; 1906-1907, 73 per cent.; 1908-09, 78 per cent. For distances up to 150 kilometers (94

[1] *The Economist.*

miles) passenger rates, per kilometer, according to the revision of 1906, are (in lire):

	First Class	Second Class	Third Class
Express trains	12.76	8.93	5.80
Local and other trains..	11.60	8.12	5.22

Over 150 kilometers the rate is established by zones. In the case of slow freight the rate has undergone few changes since 1885, and rather in the way of an increase.[1]

Italian railways make all sorts of rebates to shippers, according to the amount of political influence which the latter can bring to bear. Seven hundred and seventy-six special tariffs have been promulgated, and 1,509 regulating clauses in favor of special firms.[2] As for deputies and senators they have a right to free transportation for themselves, plus eighteen complimentary tickets a year, twelve of which are sent them without their even having to take the trouble to ask for them.

There are free tickets of every kind and every color, destined for functionaries, great and small, civil and military. Still others, of a special color, are reserved for journalists and for people who find it convenient to claim that title when traveling.

The law of 1905 established an independent staff for the ministry of Public Works, composed of a general manager and a council, consisting at first of six members, but later increased to eight. Five of these

[1] *Railway Transportation*, by Charles Lee Raper, 1912, G. P. Putnam's Sons, New York.
[2] *The Economist.*

latter are attached to the department and three represent the citizens. Members of Parliament are not permitted to be members of this council. The Minister of Public Works can annul the decisions and acts of the council, but he cannot substitute his own initiative.

According to the nationalizing party it had "placed the government railways outside of politics." But a subsequent law of 1907 provided for a superior committee of control, composed of six senators and six deputies, active members of the two chambers of Parliament, a proceeding which places the minister in a singular political situation.

In 1907 M. Giolitti nominated a committee of vigilance, which was perhaps vigilant, but which did not accelerate the speed of either passenger or freight trains. In a response to a Parliamentary interpellation he assumed entire responsibility for the unsatisfactory condition of the railway system. Parliament did not want him to resign; therefore, the majority endorsed his administration. Hence, we have the following peculiar state of affairs:

If a minister is so satisfactory to the majority in Parliament that it desires to keep him in office it must endorse all the shortcomings of his administration. If, on the other hand, it has a mind to overthrow a minister, it may cause his downfall for a delay of five minutes.

CHAPTER VI

THE RAILWAYS OF THE SWISS FEDERATION.[1]

Purchase Price Exceeded Expectation.—Profit and Loss Account.—Debt of the Confederation.—Receipts and Expenses.—Operating Ratio.—Labor.—Economy at the Expense of Passengers and Shippers.—Prophecy of Numa Droz.

The promoters of the existing Swiss railroad monopoly declared most emphatically that the new régime was not expected, primarily at least, to yield financial results, but rather advantages for passengers and shippers. The actual purchase, however, was limited to the four great systems, the government passing over the lines of secondary importance, which were less productive. Thus two classes of railway service were established: a first class, consisting of patrons of the more important roads and a second class, composed of users of the small roads, which could be safely neglected. The purchase price of the four great systems was estimated at 964,000,000 francs ($183,160,000). The Confederation has actually paid 1,195,000,000 francs, or 231,000,000 francs more than the figure first quoted.

On December 31, 1912, the general construction

[1] See *Journal des Économistes*, Dec. 15, 1910, article by M. Favarger, Nov., 1912. The Latest Accounts of the Federal Railways, July, 1913. The Revised Accounts of 1912.

account amounted to 1,472,000,000 francs, to which must be added 45,824,000 francs representing divers expenses, reduced by sinking funds to 28,177,000 francs. The total amount of capital sunk is therefore 1,500,469,000 francs ($285,089,000). This does not include, however, the cost of the St. Gothard line.

Excluding the St. Gothard line, the profit and loss accounts are shown in the following table:

		Francs
1903	Profit	1,030,682
1904	"	60,735
1905	"	651,733
1906	"	4,828,523
1907	"	2,854,206
1908	Deficit	2,854,074
1909	"	6,630,301
1910	"	1,535,000
1911	Profit	5,575,000
1912	"	9,226,000

The cost of the St. Gothard line has exceeded by 34,000,000 francs ($6,460,000) the provisions of the estimate of 1897. The expenses for completed works and new acquisitions, which on December 31, 1909, already amounted to 218,000,000 francs, had jumped in 1912 to 292,000,000 francs, or 74,000,000 francs more, and at that time there still remained unfinished works to the extent of 69,000,000 francs, while expenses in the near future for other lines are in sight, amounting to almost 100,000,000 francs. In their report to the budget of 1912 the board of managers of the Federal railroads stated that they were anxious to reduce the yearly expenses by 24,000,000 francs, but such a reduction is out of the question.

The capital stock of the four old companies was 280,000,000 francs ($53,000,000). The dividends paid to stockholders had been reduced, or altogether discontinued, during the losing years, in order that the interest upon the outstanding debt might be paid.

In the case of the state railways there is only one stockholder, the state; and, if its railways lose, it is the state, that is to say, the taxpayers as a whole, who must make up the deficit.

In 1903 the consolidated debt was 1,075,152,000 francs. In 1909 it had risen to 1,344,221,000 francs. On December 31, 1912, it had again increased 399,000,000 francs, or 37 per cent. The interest on the debt, which was 36,000,000 francs in 1903, amounted to 54,000,000 francs in 1912. Sinking fund charges on the capital invested in the enterprise rose from 4,300,000 francs in 1903 to 7,840,000 francs in 1912.

The surplus should have been transferred, at least in part, to a surplus fund. But the department, considering the unreliability of future operations, has refused to put in force the provisions of the law governing the purchase, and has simply carried it over. Some special expenses, represented by no actual value, such as abandoned installations, etc., were still carried on December 31, 1912, to the amount of 28,000,000 francs ($5,320,000). As long as this balance is not disposed of, it is out of the question to talk about surplus of receipts.

The annual appropriation of special funds, to defray the expenses of maintenance and renewals not already covered by operation in 1906, was 7,084,000 francs. In 1912 it was 9,325,000 francs.

There has been no miscalculation in regard to receipts. They were estimated on the basis of an average annual increase of 3 per cent. The increase has been 4.8 per cent. for passengers and 4.5 per cent. for freight.

During the last three years the gross earnings have jumped from 174,000,000 francs, in 1909, to 206,000,000 francs, in 1912, or 18 per cent. But these earnings will be reduced after the opening of the Loetschberg line, and as a result of the St. Gothard agreement, which has just been accepted.

Moreover, the expenses of operation have increased on an average of 6.2 per cent., consequently at a proportion greater than the receipts, up to 1908. Since 1909 this proportion has decreased. The operating ratio appears as follows:

1903	65.53%
1904	67.68%
1905	66.42%
1906	67.49%
1907	69.22%
1908	72.82%
1909	70.32%
1910	65.28%
1911	64.26%
1912	66.76%

During the same period the highest operating ratio of the Paris-Lyon-Mediterranean line of France (operated by a private company) was 53.5 per cent.

In 1909 the secretary of the department observed that, taking into account the increase of interest, extensions, and all those charges which, at the beginning of 1912, bore so heavily upon the railway,

the annual increase in expenditures would ultimately reach 20,000,000 francs. This year (1913) it has been 11,270,000 francs.

After 1906, following an average rise in wages, together with an increase in the number of employees, the ordinary labor expenses of the railroad exceeded by 4,280,000 francs the figure of the preceding year.

Beginning with April 1, 1912, a new law concerning salaries went into effect, which has brought about an annual increase of 8,200,000 francs in the expenses, without counting supplementary payments to be made in the way of pensions and sick and other benefits established on the basis of full pay. Nor does it include the increase in the salaries of laborers paid by the day. The total increase is estimated at 10,000,000 francs.

From 1904 to 1910 the increase in labor expenses was 14,370,000 francs, or 51 per cent. For all other expenses the increase was only 36 per cent. In 1902 there were 23,030 employees; in 1907 the number had risen to 31,300. On the 1st of April the tri-yearly rise in salary took effect, as provided for by a law fixing higher maximums. This law has increased the annual expenses by 10,000,000 francs.

With the object of balancing the expenses in favor of the employees, certain economies were effected at the expense of passengers and shippers, such as withdrawal of reduced fares on holidays, decreased inspection of the road, fewer trains, speed of freight trains lessened, a certain number of improvements postponed, and resistance to demands for improvements which were not too urgent. Finally the de-

partment determined to increase the rates when the industry and commerce of Switzerland are already paying internal transportation taxes double those in force in neighboring countries.

The nationalizing of the Swiss railways has certainly proved of advantage to the employees. But, are state operations carried on for the benefit of employees or for the public? Present conditions justify the following prophecy of Numa Droz:

"Through this purchase our railroad policy is in course of stiffening into a set of rigid regulations prescribed by a poverty stricken department incapable of solving the great problems of the future for lack of resources."

CHAPTER VII

RAILWAYS OF NEW ZEALAND

Capital Charges.—Receipts and Expenditures.—Net Operating Profits.—Deficits.—Interest on the Debt.—Predominance of Political over Economic Considerations. Causes of the Deficit.—Advancement According to Seniority.—"The Government Strike."—Theory of Operation at a Loss.—Profits from State Mines Attained Only at the Expense of the Railroads.

In 1860 the first railway of New Zealand was constructed by the provincial government of Canterbury, to connect the town of Christchurch with the port of Lyttelton, separated from it by a chain of high hills. In 1863 the provincial council of Auckland and Drury conceived the idea of extending the line to Wellington.

The capital then and subsequently sunk in the railways of New Zealand, amounting, according to the accounts, to £27,762,592 ($135,203,823), on the first of March, 1909, is far from representing the whole expense of the project. £1,289,840 ($6,281,520), the cost of lines not yet opened on the 31st of March, 1909, should have been added to this sum. The total amount would thus reach £29,052,432 ($141,485,343). Moreover, no account was taken of the interest paid on the capital sunk in lines not operated during the thirty-nine previous years.

Before 1882 the amount of the deficits can only be surmised; since that date they have aggregated £4,500,000 ($21,915,000). The total capital invested from 1870 to 1909 has been about £40,000,000 ($194,800,000), of which £23,305,009 ($113,495,000) was paid out of borrowed money. The rest has been raised by the sale of public land, and, above all, by the aid of taxes—direct or indirect.

Since 1895 the capital cost per mile of open line has risen from £7,703 to £10,351. This increase is due in part to improvements upon the roadbeds. In order to explain further such an increase in cost it is said that the country of New Zealand presents unusual difficulties—that it is situated far from the industrial centers of the world, and that construction is on a small scale. We might add that railway construction is considered as a species of national workshop, designed to give employment to laborers out of work; that none of the modern mechanical methods are employed; and, finally, that "the work is done by the government and not by private contractors." [1]

The gross earnings of the railways increased from £1,150,851 in 1895 to £2,929,526 in 1908-1909. But the expenses rose in even greater proportion. They increased from £732,160 in 1894-1895 to £2,114,815 in 1908-1909. And, if there had not been a reduction of the rate of interest on government loans, the deficit of 1909, based on the "capital cost" of the open lines, would have been £323,555, instead of £212,468.

The railway statement, presented annually to Parliament by the Minister of Railways, always shows a

[1] State Socialism in New Zealand, page 72.

"net working profit," without any indication that this profit is always insufficient to pay the interest upon the cost of construction at the average rate of interest paid by the government upon the public debt.

During the year ending March 31, 1909, the railways earned a "net profit" of 2.93 per cent. on a capital of £27,762,592 ($135,203,823), the cost of construction of the open lines. But, since the average rate of interest paid on the public debt was 3.7 per cent., the "net profit" is absorbed in interest payments, and a deficit amounting to £212,468 ($1,034,719) emerges, if interest is reckoned on the cost of the open lines only. But real cost of construction includes the cost of the unopened lines, making a total of £29,052,432 ($141,485,343), reducing the "net profit" to 2.80 per cent., and increasing the deficit by £262,760 ($1,279,641). If the interest upon the open lines only is considered the total deficit from 1882 to 1909, in round numbers, is £4,500,000 ($21,915,000).

But as a matter of fact, according to the conditions of its investment, interest at the rate of 4 per cent. should have been paid on the railway debt. In such case the deficit in 1908-1909 would have been for both classes of lines £347,386 ($1,691,769); while the total deficit since 1881-1882 would probably amount to at least £8,000,000 ($35,160,000), and perhaps £10,000,000 ($48,700,000).

The deficit is due, above all, to the principal line of the South Island, 1,299 miles long. The political influence of this part of New Zealand, formerly much greater than it is to-day, contributed to the unprofitable railway construction in that territory. Sir Joseph

Ward, however, in explaining in Parliament the deficit on the lines of the southern province, announced that the lines of the northern province would presently need repairs, and that these lines would present in time to come the same deficiencies as the others.[1]

Such accounts as these show the necessity of reckoning on large sums for repairs. Moreover, as the Minister of Railways, Hon. J. A. Millar, said, in 1909:

"The enhanced price of materials, increased rates of wages, and expenditures incurred on the works enumerated (track renewals) have had a marked effect on the maintenance expenditure, which has steadily increased during the past 10 years."

Further, the public is exacting, and the government must sacrifice economic considerations to those of a political nature. Since 1895, according to Sir Joseph Ward, rate reductions have reached £850,000, while the value of increased train service has risen to £883,000. This reckoning takes no account of the concessions in pay given to the railway staff, which amounted to another £375,000.

Although from 1895 to 1907 the salaries of railway employees were increased £375,000 ($1,826,250) the Amalgamated Society of Railway Servants complained that they were receiving lower salaries than those paid by private companies, while their hours were often much longer than would be tolerated in any private business subject to the jurisdiction of the Arbitration Court.

[1] July 26, 1907. State Socialism in New Zealand, p. 74.

The causes of the deficit on the railways are:

1. The construction of lines in advance of requirements.
2. The high cost of all lines.
3. Delays in construction, principally due to lack of funds.
4. Unprofitable concessions in service, fares, and freight.
5. Rigid system of rates.
6. High cost of operation and maintenance, owing, in part, to a certain lack of discipline, initiative, and efficiency in the railway service.

One of the most serious causes of inefficiency is the system of promotion, which is based principally on seniority in point of service, in the hope of abolishing favoritism and other abuses.

Government employees have often been accused of making use of the so-called "government strike." The general manager of railways wrote a letter in 1909 to the chief mechanical engineer at the Addington workshops, making serious charges of inefficiency. But, when the investigating committee assembled at Christchurch on March 11, 1909, that same general manager made a pitiful recantation. Yet the investigation had clearly demonstrated, among other things, the difficulty of discharging useless men; of finding capable men to replace them when discharged; the lack of encouragement of skilled labor because of the absence of all opportunity for advancement or increase in salary; the utter absence of initiative shown by the superintendent of the workshops and the lack

of up-to-date appliances in certain lines of work. The board of inquiry, the chairman of which was a distinguished engineer, Professor R. J. Scott, of Canterbury College, arrived at the conclusion that the cost of production was greater at Addington than in private workshops, and that the amount of production was relatively much less in proportion to the number of hands employed.

The Evening Post, of Wellington, said on June 17, 1909:

"Here, in miniature, we have the evils depicted which are rampant more or less in every branch of the public service; and, if the result is that at Addington we are paying from 30 to 60 or 70 per cent. more for the work done than it would cost us elsewhere, it is natural to infer that the public service, as a whole, is also costing far beyond its value."

For the reasons given above and a number of others the railways of New Zealand have never earned the full amount of interest on the capital cost.

However, the state has frequently declared that it does not wish to make the railways pay. That far and above such a consideration should be placed the service rendered to the country in providing cheap transportation of agricultural products to the markets.

This theory gives rise to two questions:

1. Why consent to recover 3 per cent. interest, instead of 3.72 per cent. (the rate on state funds), and why not, if this theory be just, consent to recover only 2 per cent., or even less?

2. Is the system rendering all the service that it ought to render considering its cost?

Moreover, arguments based on such a theory have the prime defect of lacking a just standard of measurement. They are marked by that vagueness which so often envelops political conceptions and fosters the worst abuses. They serve to enable makers of electoral platforms and members of the most influential groups to instigate expenditures which weigh heavily upon all their fellow-citizens, in order to increase the value of their own property. Thus they make their own political strength increase the "unearned increment" so violently denounced by the partisans of nationalization of the soil and of state operation of railways.

Messrs. J. S. Le Rossignol and W. D. Stewart have demonstrated very clearly the disadvantage of railway operation at a loss.

A railway line is opened in a country which cannot support it. It is therefore a parasitic line, which serves only to injure other lines, or to be a drain on the whole body of the taxpayers of the country. Because of its cost it stands in the way of rate reductions and improvement in the service of other lines. It operates at the expense of either passengers and shippers or of the taxpayers of other regions.

How about the development of the country? But railroads cannot be constructed everywhere. When the fundamental rule is lost sight of, that a region ought to pay and to pay enough to compensate for losses during the first years of operation, there can be no further limit to extravagant expenditures. In-

deed, the financial failure of the railways has been one of the chief causes of the arrested development of the whole system. It took twenty-three years to construct a section 200 miles long on the principal line between Auckland and Wellington; and this line is self-supporting. Then apart from the fact that this dilatory method of construction has added enormously to the cost, it is appalling to think of the huge sum which the country has paid in interest during the construction, to say nothing of the returns which might have been gathered in and the settlement which would have been promoted had the work been completed with reasonable dispatch.

The resulting interest charges on the whole line may be readily conceived. Instead of concentrating the funds upon one line, and completing it, they have been frittered away in various parts of the country, in order to conciliate political groups. The government, unable to borrow more than a certain sum annually, was at a standstill. If, on the contrary, it had been given an opportunity to finish the profitable lines, it might have been able, with the resources that these latter would have yielded, to pay the interest on the capital already borrowed; its credit would have been improved, and, possibly, the resources thus at hand might have permitted it to provide for interest on sums to be borrowed for the further development of the system.

Such a wasteful policy, far from aiding in the development of the country, has actually retarded it. The districts deprived of a railway have paid for those in other places, while the slow rate at which these

railroads have been constructed, together with the excessive amounts which have been paid out to build unproductive lines, have deprived other districts of any hope of a railroad of their own. New Zealand has at last begun to comprehend that the construction of lines which do not pay is "bad policy."

The government has recently adopted a system of forcing the railroads to earn their own interest on the capital invested. Sir Joseph Ward, at Winton, on the 5th of May, 1910, even mentioned the necessity for amortization. "The time for continued borrowing is coming to an end, and that of repayment is approaching."

Unfortunately the government finds itself between districts which are demanding railways, districts which have them, and which are demanding rate reduction, improvements of transportation and other favors, and employees demanding increase of salaries and shorter hours. The department of labor insists that railways be constructed in order to give work to the unemployed; while finance critics demand that the railways be compelled to provide for the interest on the capital invested in them, and that they earn enough to pay for the new lines.

Yet, despite all the disadvantages connected with government operation of railways, no one dares suggest that the lines may be leased to a private company, although a provision for such lease exists in the act of 1900 (section 34), and such a proceeding would undoubtedly be the best means of putting the finances of New Zealand on a sound basis. It has been suggested that the administration of the railways should

be confided to a commission of experts who would be independent of the influences to which public officials are exposed. Even this system, however, would not completely insure freedom from political interference, were it only by reason of its origin and the necessity for its renewal. Such a commission is also practically certain to fall into all the errors of a bureaucracy. The system has been employed in the Australian states, notably Victoria, and in New South Wales.

The government of New Zealand is anxious to make use of the railways to carry out a certain policy relating to the distribution of population. The "stage system" of railway rates worked out by Samuel Vaile, and discussed with much approval in 1882, was especially designed to prevent the concentration of population in cities and to keep it distributed over a vast territory, by establishing very low rates in rural districts and high rates in the urban districts. The experiment, however, was never made.

New Zealand is developing. Little by little the profitable lines have been completed, and some abuses have been more or less checked. In fact, the government has gone so far as to ask, as a condition of completing the Lawrence-Roxburgh railway, that the people of the district guarantee at least 3 per cent. interest on the capital cost. But although the results of railway operation are improving, and will probably continue to improve, and although partisans of state operation have been untiring in their attempts to draw conclusions favorable to their argument, an unbiassed history of the railways in New Zealand only condemns it.

Government property in New Zealand is exempt from taxation. At each extension of its activity the amount of property subject to taxation diminishes, and, if these enterprises fail, the burden of the taxpayers is increased. The principles of sound private and public finance are the same everywhere, and profit from public enterprises is indispensable in order to establish the fact that they are an advantage as public investments.

It is not so many years since the state of New Zealand undertook the operation of two coal mines, known respectively as the Seddonville and Port Elizabeth mines. In 1905, 1906, and 1908 the first was losing money. In 1911 it lost £3,219. In 1910 it made a profit of £194, and in 1912, of £863. The mine of Port Elizabeth brought in profits as high as £21,313 in 1906. But its profits have greatly diminished during the last few years, and in 1912 were only £3,964.

The explanation of these profits is simple. Up to 1908 the government had bought 166,000 tons out of a total production of 237,300 tons for the railroads. But it apparently found its own coal too expensive. It began to buy coal from private dealers. In 1912 it bought only 58,000 tons, out of a total production of 244,500. Its mining profits, therefore, have been mainly derived from its own railroad.

CHAPTER VIII

GOVERNMENT RAILROADS IN FRANCE

1. A Good Turn to the Socialists.—The Impromptu Purchase of the Western Railway.—Extravagance.—In Aid of the Old State System.—Charges Against the Western Railroad Company.—Advantage to the Stockholders.—The *Opération Blanche.*—The Purchase Price.
2. Net Profits of Operation by the State and by the Company.—Provisions and Rectifications Serve Only to Aggravate the Situation.—Supplemental Credits.—Share of Labor.
3. Attacks Upon State Credit.—4 Per Cent. Bonds.
4. Conclusions.

1. In Book I, Chapter 2, I referred to the political motives underlying the purchase of the Western Railway of France. In order to do a good turn to the Socialists, Georges Clemenceau socialized this system.

The Minister of Public Works, Louis Barthou, saw in the purchase a double advantage. It would be a sop to the Radicals and Radical Socialists, for one thing, and, in addition, it might serve to cover the deficits of the so-called old government system, that is to say the lines already under public management. The deficits were not to be hidden, however. Therefore, Minister Barthou, who had at first repudiated the charge that such deficits existed, openly demanded that

the sum of 26,600,000 francs be set aside for the benefit of the old system from the special treasury account established by the law of December 18, 1908.

In November, 1906, the government introduced a bill for the purchase of the Western Railway, although it confessed "that no papers relating to such a project were on file in the office of the Minister of Public Works," a provision required by law. Nevertheless, the government demanded that a law authorizing the transaction be passed by the Senate and the Chamber of Deputies, before the end of the year, in order to prevent the Western company, which had had a profitable year, from increasing its net profit.

The Senate, however, refused to be intimidated by threats. Its committee, through the secretary, M. Prewet, who assigned the strongest possible reasons for such action, rejected the purchase bill, although it had already passed the Chamber of Deputies, by 364 votes against 187, 76 out of the 80 deputies from the districts touched by the Western road having voted against the purchase. Out of 46 senators, 44 were emphatically against the bill. Nearly all the chambers of commerce in France were also opposed.

The argument advanced in favor of the purchase was that the Western company would never be able to repay the advances that had been made it under the name of guaranty of interest, that thus it was running on government money, and hence it was neither more nor less than a state department engaged in an unprofitable operation.

Yet the results of its operation indicated that the company was making the greatest possible effort to

extricate itself from the crisis of 1901. The receipts, net profits and interest guaranties for 1901, 1904 and 1906 were as follows (in francs):

	Receipts	Net Profit	Guaranty of Interest
1901	182,910,000	65,236,000	25,740,000
1904	192,636,000	84,775,000	9,911,000
1906	207,958,000	89,625,000	5,964,000

But the charge was made that the company had obtained its reduction in expenses only at the cost of its employees. I give below the number of employees and the increase in their salaries:

	Number of Employees	Total Wages	Average Wage
Dec. 31, 1900.....	19,849	24,435,000 fr.	1,230 fr.
Dec. 31, 1905.....	21,272	27,208,000 fr.	1,279 fr.

Thus we see that the number of employees had increased, as well as the individual salaries, in spite of the difficulties facing the company. Moreover, during this same period, the sick and other benefits, bounties and allowances of various kinds had grown from 2,188,000 francs to 3,580,000 francs, or an increase of 1,392,000 francs.

The other argument, harped on *ad nauseam* by partisans of the purchase, was that on December 31, 1905, the Western railway's debt to the state amounted to 302,569,000 francs, and the interest on it to 117,300,000 francs, a total of 419,869,000 francs.

But the Western company had equipment estimated at 350,000,000 francs. By forcing it to submit to a deduction of 30 per cent. the price the government

would then have to pay for the road would be 245,000,000 francs. The difference between 419,869,000 and 245,000,000—or 174,000,000 francs—was the clinching argument on the part of the advocates of the purchase to hasten action in order to safeguard the interest of the state.

And how did this purchase safeguard the interests of the state? The government took over the road at once; but it increased its investment in the Western company. The guaranty of interest to the stockholders would come to an end in 1935 if the company continued to operate the road, while, in case of purchase by the state, it would continue to the end of the franchise, in 1956. As a result the chief beneficiaries by the purchase of the Western road were the stockholders. On the day when the road changed hands its stock was quoted at 830 francs. It subsequently fell to 810 francs, but the *Cote de la Bourse et de la Banque,* the *Moniteur des Intérêts Matériels,* and I myself immediately pointed out that the advantages resulting from the purchase would raise the value of the stock to more than 1,100 francs. At the present time, June 17, 1913, it is quoted at 870 francs.

What did the purchase cost the state? The official in charge of the financial end of the purchase (Directeur Général du Mouvement des Fonds) declared that "it was not possible to determine it even approximately." Yet the Minister of Public Works declared that the whole transaction could be called an "opération blanche." That is to say, it would cost the state nothing.

We have already referred to the fact that the Senate

rejected the bill authorizing the purchase of the Western line. But the Clemenceau ministry brought so much pressure to bear upon the senators that the purchase was finally voted by a majority of three. Thus the state found itself charged with the duty of furnishing service on a system of 9,000 kilometers (5,625 miles). In the drafts and reports of the committee in charge of the purchase, various settlements of the points at issue between the government and the company were discussed, but these were all summarily eliminated by the law of July 13, 1908, which ratified an agreement with the Western company. The guaranty of interest, which was to expire in 1935, was extended to 1951.

The remainder of the sums due from the company upon bonds, certificates and guaranties of interest was fixed by law at the sum of 7,122,000 francs ($1,353,180). There was no discussion of the 419,869,000 francs, nor even the 174,000,000 francs. The real amount of the sums due the company is determined by annual estimates. The sum total amounts to 4,972,334,000 francs ($944,743,000).

2. What are the expenses resulting from the operation of the system by the state?

The state took over the Western Railway January 1, 1909. During the five years of its operation by the company, from 1904 through 1908, the average annual net profit was 78,540,000 francs. In 1909, the first year of state operation, this net profit fell to 69,970,600 francs; in 1910 to 57,169,200 francs; in 1911, to 30,180,900 francs; in 1912, to 21,932,900

francs. From this last figure a forecast may be made of what the profit of 1913 will be. Therefore, and taking into consideration the probabilities of 1913, we have an annual average of 41,071,000 francs for the net profit from state operation, instead of the 78,540,000 francs from operation by the company.

In a statement outlining the special features of the budget of 1912, M. Klotz estimated that the deficit on the operation of the Western Railroad would not exceed 24,000,000 francs ($4,560,000).

On the other hand M. Chéron's report upon the application for supplemental credits in favor of state railways, submitted March 29, 1912, declares:

"The demand for supplemental credits, which we are about to examine, constitutes a confirmation of the estimates of the budget of 1912. It was, as we see now, anticipated. The figures are none the less *very disturbing.*"

It was not anticipated in the explanatory statement of the budget of 1912. Some lines further on M. Chéron adds:

"Progress has already been made in bringing order into this department. It only remains now to control the conduct of the enterprise with such vigilance and severity as will reduce the truly exorbitant deficit in the profits of operation.

"The Honorable Secretary states that the supplemental credits granted in 1912 have decreased the net profits of the old system by 3,813,400 francs and increased the deficit of the Western line to 23,389,900 francs.

"Following the reduction effected by the commission

in the ordinary expenses of the Western line, the increase in the deficiency of the profits of the system affecting the budget of the ministry of Public Works is discovered to be 22,389,900 francs instead of 24,529,900 francs. The total deficit in the profits from the operation of the system will thus be found to be for 1912, and, including the original provisions, 81,535,900 francs, instead of 83,675,900 francs allowed by the government. If the deficit on partial operation be added, or 739,000 francs, we have a total deficiency for 1912 of 82,874,900 francs."

M. Chéron is basing his comparison on the year 1908, the last year of the company, with the present condition of the state railway. But the purchase had been voted by the Chamber of Deputies in December, 1906. The company had no more authority over its employees, and its condition was altogether abnormal. Moreover, during the fiscal year 1908 expenses had to be met which, if the purchase had not been made, would normally have been carried over into the year 1909.

The unfortunate situation of the Western company serves rather to bring out more clearly the seriousness of the increase in the expenses of the system after its purchase by the state.

It should be noted further that the actual deficit of the company in 1908 was only 28,522,675 francs 68, to which M. Chéron adds 3,300,000 francs, representing additional charges resulting from the agreement regulating the sums due annually on the purchase.

As far as the old government railway system is concerned, we can speak only of the receipts and ex-

	1908	1912	Increase	Decrease
Gross receipts.....	217,645,100 fr.	244,335,000 fr.	26,689,900 fr.	
Expense of operation	147,958,700	220,262,900	72,304,200	
Net profits	69,686,400	24,072,100		45,614,300 fr.
Capital charges	101,509,100	106,347,000	4,837,900	
Deficits	31,822,700 fr.	82,274,900 fr.	50,452,200 fr.	

The increase in operating expenses, the only increase that it is possible to consider for the purpose of a logical comparison, is..... 72,304,200

It is divided into labor expenses (wages, salaries, and special allowances—accessory labor expenses of all kinds), in the amount of 52,296,000

And to the expenses other than those of labor in the amount of..... 20,008,200

penditures of operation, since the costs of construction have not yet been determined. Since 1908 the net profit of operation has considerably diminished.

	1908	1912	Increase
Gross receipts	58,969,411 fr. 60	67,150,000 fr.	8,180,588 fr. 40
Expenses of operation	47,583,176 fr. 05	63,009,900 fr.	15,426,723 fr. 95
Net profits	11,386,235 fr. 55	4,140,100 fr.	—7,246,135 fr. 55

The receipts thus rose 8,000,000 francs, while the expenses increased 15,000,000 francs. Thus the same condition is reached as in the case of the Western line.

M. Chéron, after having reported an annual increase in the receipts of 3.50 per cent. "as merely satisfactory," remarks: "The progressive increase of expenses is the true cause of the decrease in the net profit of operation."

The following table presents the expenses of operation:

	1908	1912	Increase
Labor expenses	24,337,000 fr.	35,655,600 fr.	11,318,600 fr.
Other expenses	23,246,176 fr.05	27,354,300 fr.	4,108,123 fr. 95
Total	47,583,176 fr. 05	63,009,900 fr.	15,426,723 fr. 95

These figures drew the following criticism from the secretary:

"It would be regrettable if the results of the public operation of the Western line did not convince the department of the necessity of keeping down the general expenses of the old system. We are anxious in this case also to reach, or rather to return, to a more favorable net profit. Outside of justifiable improvements in the posi-

tion of the employees, there are expenses which could be reduced or checked.

3. "Moreover, we would say that, in the case of the old system, as in that of the Western line, the extraordinary works which for some years have been in course of construction (involving an outlay of more than 21,000,000 francs since 1909, together with the 31,000,000 francs demanded, and with the same excuse, in 1912), ought to result in a development of traffic, and, as a direct consequence, a corresponding increase in the net profit."

From the foregoing extracts it would appear that the greater part of the increase in expenses came from the raising of the wages and salaries of an enlarged working force. The proportion varies for the two state railway systems from 72 to 73 per cent. of the total increase in expenditures. On the newly acquired Western line, the improvements in the situation of the employees and the regulations governing promotion represent together more than two-thirds of the total increase in labor expenses.

While operating expenses from 1908 to 1912 have increased 72,304,000 francs the gross receipts have risen from 217,645,000 francs to 244,335,000 francs—a gain of only 26,690,000 francs. The difference is at least 45,614,000 francs.

Moreover this deficit must continue to increase, because this year the state railways have just issued 300,000,000 francs ($57,000,000) of 4 per cent. bonds, on which the state must pay interest in the future.

Foreseeing this bond issue M. Rouvier observed, in a speech on the 26th of January, 1904:

"You will have to create a special issue that you will probably term 'railroad' or 'public works' bonds: and, in spite of your delusion that, because you are going to call it by another name, this new issue will be sold on the market under the same conditions as are private bonds, you will have made a serious attack upon the credit of the state."

The prophecy has been realized. The Minister of Finance did issue the 4 per cent. bonds. The 3 per cent. rentes fell immediately to 92.65. In October they were quoted under 91 francs. To-day (June 18, 1913) they are 83. The amount of depreciation thus forced upon the 3 per cent. rentes has been greater than the 300,000,000 francs borrowed by the state for the railroad.

Optimists prophesied that these state railway bonds would pull up the rentes; they have been pulled, but they have been pulled down.

The question has been asked: How can a bond issue of 300,000,000 francs have any influence upon a market of 22,000,000,000 francs? But there are not 22,000,000,000 francs in circulation. A portion of this sum is tied up in savings banks, insurance companies, benevolent associations, the property of minors, etc. There is only a limited amount left to bear the entire weight of this issue of state railway bonds. The 4 per cent. bonds, issued at 503 francs, have remained at about this figure.

Some improvements have been made in the Western line; but in five years, from 1909 to 1913, the cost of construction has been 718,000,000 francs ($136,000,000). According to the partisans of the pur-

chase, "this is the fault of the Western company, which delivered a system in poor shape."

But at the end of 1911 M. Colson, formerly Director of Railroads in the ministry of Public Works, and now councillor of state, declared:

"According to such information as we are able to gather from engineers, whether those of the late Western company or in our own service, it is clearly apparent that, down to the final day on which it remained in the hands of the company, the whole system was in excellent shape."

While his final statement could not well be more explicit:

"The state of the roads at the time of purchase would neither endanger the safety of travelers nor impose abnormal financial charges upon the new management."

Whereas, the net profit per train kilometer varied in the case of the private companies from 1 franc 75 to 2 francs 71, it was only 0 franc 53 upon the Western (state) line, and 0 franc 44 on the old system. In other words, *the state was operating its new purchase at a figure four times higher than the operating cost of private lines, and its old system at a figure five times higher.*

From 1909 to 1912, that is to say, in three years, the decrease in net profit upon the Western line has been 66 per cent., and the operating ratio has increased to 91 per cent. This is bad enough, but the situation is even worse on the old system. During the

same period the decrease in the net profit was 73 per cent., while the operating ratio reached the enormous figure of 95 per cent.

Conclusions

1. The purchase of the Western Railway was a political measure, designed to conciliate the Socialists.

2. Presented in the light of an operation that would cost the state nothing, an "opération blanche," it has wrought serious harm to the state. The sole beneficiaries have been the stockholders of the Western company.

3. The employees of the state railway instituted a strike, and their exactions have resulted in increased expenses, which have not been offset by improvements in the service.

4. The issue of state railway bonds at 4 per cent. has caused a fall in 3 per cent. rentes.

5. The operating costs are even higher on the old state system than on the newly acquired Western line.

CHAPTER IX

PUBLIC VS. PRIVATE OPERATION

Public *vs.* Private Initiative.—Extent of Railroad Lines Operated by the States and by the Companies.—Operating Ratios.—Government Profits.—Reduction of Rates in Great Britain.—Difficulties in Fixing Responsibility in State Railway Operations.

The advocates of State Socialism say with admirable assurance: "Wherever private initiative has proved inadequate the state must step in."

Has the spirit of initiative been lacking in private management of railways? Private companies have been forced to struggle for a long time against government opposition, but to-day, although Prussia is a flat country, where not a single tunnel is to be found, and where the lines are much easier to construct than in Great Britain, the British have a system of more than 19 miles per 100 square miles, while the Prussian system has only 16 miles, or 11 per cent. less.

Did the United States government build the daring lines which have joined the two oceans?

Edwin Pratt, in his *Railways and Nationalization,* has demonstrated that private companies possessed more than 69 per cent. of the entire length of line of the existing railways in 1908.[1] And, following a se-

[1] *Railways and Nationalization,* by Edwin A. Pratt, 1908.

ries of debates with German publications, he brought his figures up to date in the London *Times*, of October 1, 1912. Here they are:

	Railways			Percentages	
Continents	*State*	*Companies*	*Total*	*State*	*Companies*
Europe	107,600	99,600	207,200	51.9	48.1
America	12,200	314,700	326,900	3.7	96.3
Asia	36,700	26,600	63,300	58	42
Africa	11,200	11,200	22,400	50	50
Australia	18,000	1,200	19,200	93.7	6.3
	186,700	453,300	639,000	29.1	70.9

Thus, over two-thirds of the railways of the world belong to private companies. Moreover, of the 24,500 miles of railway belonging to the state of British India, 18,000 miles are operated by private companies. In Holland all the lines are operated by companies. In Belgium the tramway lines are longer than the state railways, and they are operated by private companies. Lines in Great Britain, which have three, four, or even more tracks, are included in these figures on the line and not the track basis. The total length of line is 23,287 miles. The length of main track, however, is 39,851 miles, and of main track and sidings, 54,311 miles.

The greatest system in the world, that of the United States, is owned by private companies. Mr. Bryan, on returning from Europe in 1903, introduced nationalization of railways into his platform, without informing any of the members of the Democratic party of his intention. This brilliant inspiration helped to destroy his chances for the presidency.

The operating ratios suffice to show that superior

administrative capacity is not to be found on the side of the several states which exercise it in this direction.

Operating Ratios

State Railways:	
1908 Prussia	71 %
1908 Austria	76 %
Bavaria	65 to 72 %
1909 System bought by France from the Western company	72 %
1910 Hungary	80.6%
French Private Companies (1909):	
Compagnie du Nord	58 %
Compagnie d'l'Est	59 %
Compagnie d'Orléans	53 %
Compagnie Paris—Lyon—Méditerranée	53 %
Compagnie du Midi	54 %

We have seen that the state railways of Prussia have yielded revenue to the state budget. But in Belgium, Italy, Austria, and Hungary they have only been a burden. The partisans of socialized railways in France have neglected to tell us what the French government railways have contributed to the state.

In the various countries state railways are exempt from general taxation. The amount, however, that would be collected from them were they private enterprises should, in all justice, be added to their expense account. In France passengers and shippers upon the state railway lines are taxed for speed. They pay a stamp tax on baggage and other receipts, and way bills, taxes upon vouchers, and custom duties on pit coal. The saving resulting from economies in transportation, as given in the following table, are reckoned, and with reason, among government profits:

Old system	10,511,900 fr.
System bought from the Western company	41,422,500
Total	51,934,400 fr.

The following sums represent the contributions made by the French (private) railway companies to the state:

	Nord	*Est*	*P.O*	*P-L-M*	*Midi*	*Secondary Lines*
			(Millions of Francs)			
Transportation taxes	17,970	4,493	17,561	32,195	8,503	1,535
Franchise taxes	7,782,	7,687	9,867	18,828	5,228	994
Other taxes arising from the railroad industry	1,451	1,238	3,079	3,846	951	192
Economies in transportation resulting from contract conditions	12,403	13,872	23,582	31,864	8,908	2,050
Army transportation	105	261	911	355	94	48
Total	39,711	27,551	55,000	87,088	23,684	4,819

Or a total of 237,853,000 francs.

This burden per kilometer is a very heavy one.

Principal Lines:	Francs
Nord	10,520
Est	7,603
Paris-Orléans	7,113
Paris-Lyon-Méditerranée	9,142
Midi	6,158
Secondary Lines	3,028

Such contributions to the state are not to be despised, and, in any comparison between the profits per kilometer of the government railways and those of the railways operated by French companies, they should be taken into account.

The following example, borrowed from the history of the British railways, shows the necessity of granting large freedom of action to railways.

The railways of Great Britain had a certain commercial policy. Their general freight rates, much more profitable than special rates, represented 75 per cent. of the total traffic. They had only one regulation which applied equally to all shippers, and this regulation was enforced. Before the rigid law introduced in 1891-1892 the railways, by way of experiment, had made a rate reduction, worked out with care, but allowing for changes in its provisions. If there should be no increase in traffic as a result, the rate was to be raised. To-day such action is no longer possible except by the authority of the Railway and Canal Commission. As a consequence, where during the decade 1882-1892 rates had been reduced 14 per cent., in the decade that followed they were reduced only 2 per cent.

All state railway systems hold themselves more or less absolutely free from any responsibility. We have already described the point of view of the Prussian administration in this regard. The Italian railways have adopted the point of view that any accident involving loss to their passengers or to shippers is a dispensation of Providence. In France we have seen a verdict of the Court of Brest, and an opinion of the Court of Rouen, deciding against the State Railway department, in its attempt to escape liability for damages by appealing to "circumstances beyond

their control" in cases in which no private company would dream of offering such an excuse.

After having studied in detail the great European systems, an American, Mr. Charles Lee Raper, concludes:[1]

(1) "That government operation of the railways has, with a few notable exceptions, as, for instance, the Prussian, not paid all of its expenses, and that it has consequently been a burden upon the taxpayers.

(2) "That government operation, though it has been a burden to the citizens as taxpayers, has not supplied them with a particularly excellent service—that its freight service especially has lacked in efficiency and practical adjustability to traffic and industrial conditions.

(3) "That government operation, though it has not been particularly efficient, has not been especially cheap—that its freight rates have not been, after all allowance for difference in traffic conditions has been made, as low as those upon a number of the privately managed railways."

State railways may find themselves in one of three situations:

First: Where they are profitable, and their profits are absorbed by the public treasury. In this case the interests of the shippers and passengers are being sacrificed to those of the state. This is the case in Prussia.

Second: Where they lose money and the taxpayers make up the deficiency. Here the interests of the tax-

[1] *Railway Transportation.*

payers are being sacrificed to those of shippers and passengers.

Third: Finally there is a third case, in which the interests of the taxpayers, passengers, and shippers are sacrificed to the demands of employees. In such cases the railroad is being operated for the benefit of the employees and not for that of general transportation. This condition appears more or less in all state systems.

CHAPTER X

THE HOLY CITIES OF MUNICIPAL OPERATION

1. British Cities.—Argument Against Economic Liberalism.—What Is Its Value?

The delusions of the advocates of state and municipal ownership are generally set forth with that same naïveté that we have already seen displayed in the reports upon the Western (state) Railway. Whenever they are at a loss for examples of satisfactory results from state monopolies they point to the municipal operations of British cities.

They say with emphasis: In the country of Adam Smith, and of Cobden, in spite of the Manchester school, the cities have shown themselves the boldest in the world, in entering upon the path of municipal Socialism. London, Birmingham, Glasgow, and even Manchester are holy cities. Could a more decisive argument exist for the purpose of proving the inadequacy of private initiative, or that every industry which is a monopoly in fact ought to become a legal monopoly? Have they not achieved a success which proves that municipal authorities can administer as well as, if not better than, private enterprises?

The importance given to British municipal experiments forces me to treat it in special chapters.[1]

[1] See Raymond Boverat: *Le Socialisme Municipal en Angleterre et ses Rèsultats Financiers* (1907), 2nd ed., 1911. Major

Darwin: *Municipal Trade.* Lord Avebury: *On Municipal and National Trading.* Des Cilleuls: *Le Socialisme à travers les Siècles.* D. Bellet: *Socialisme et Municipalisme.* Hugo Meyer: *Municipal Ownership in Great Britain.* Graham and Warmington: *Taxation, Local and Imperial, and Local Government,* 1899. Fairlie: *Municipal Administration.* Davies: *Cost of Municipal Trading. Municipal and Private Operation of Public Utilities. Report to the National Civic Federation.* Three volumes in octavo. 1907, New York. *Municipal Year Book,* edited by Duncan, published annually by the *Municipal Journal.*

CHAPTER XI

OPERATION OF GAS AND ELECTRICITY IN THE UNITED KINGDOM

1. Gas Industry Founded by Private Individuals.—Municipalities Have Profited by the Experience of Individuals.—Two-Thirds of the Gas Furnished by Private Companies.—Comparative Table.
2. Electric Enterprises.—Municipalities Opposed to the Introduction of Electricity.—Minority Lighted at Expense of Majority.—Financial Results of Gas and Electrical Undertakings.—Variations.—Local Authorities Which Are Operating at a Loss.

1. In Major Leonard Darwin's remarkable study, entitled *Municipal Trade,* I find the following figures, indicating the number of British municipalities which have undertaken to supply gas. During the period 1820-1839 only three municipal plants appear. During the period 1870-1879 thirty-eight municipalities adopted the system, and from 1890 to 1892—fifteen. Not until the gas industry had been firmly established by private companies did municipalities take a hand in the game, having then at their disposal the labor, buildings, equipment, mains, and consumers already provided for them by their competitors. Nor was this change of proprietorship always attended by immediately disastrous results. In such cases, however, a disaster would have been a miracle.

An incident relating to Manchester, which has supplied gas since 1824, betrays the *sang-froid* with which municipal authorities are capable of treating certain financial questions. On the occasion of a royal visit to that city, in 1905, the gas reserve fund was called upon to provide £8,897 ($43,300) to defray the expense of the king's entertainment.

A Birmingham municipal gas plant was the grand municipal ideal of Joseph Chamberlain. In 1874 he bought out the two existing companies for £2,000,000 ($9,740,000). The measure was regarded at the time as a purely fiscal one. In 1905 Birmingham was charging 2s 6d per 1,000 cubic feet of gas, when a private company at Sheffield was charging 1s 5d.

Vince estimates that the favors granted to employees represent an expense to British taxpayers equivalent to an increase in taxation of 4 shillings on the pound, or 20 per cent.[1]

Sixty-three per cent., or almost two-thirds of the public gas lighting service of the United Kingdom, is furnished by private companies; the proportion is the same for private gas consumption. In England and in Wales the proportion of gas furnished by private companies is 69 per cent. In the United Kingdom the consumers supplied by private companies represent 59 per cent.; in England and Wales 65 per cent.

The capital of the companies has increased £2,017,000 ($9,822,790), while that of local authorities has

[1] Vince, *History of the Corporation of Birmingham*, 1902.

decreased slightly. The gross receipts of the companies are a little higher than those of the local authorities, but the net returns are less. It is easy to grasp the reason for this. In the furnishing of gas local authorities have certain privileges not accorded private companies. The price of gas furnished by private companies is 2s 9d, by local authorities 2s 6d. Yet the local authorities acknowledge a net revenue of 9¾ per cent., while the companies show only 5⅚ per cent.

According to a parliamentary report of January, 1912, the capital invested in gas works in the United Kingdom amounts to £134,000,000 ($653,000,000). The following table summarizes the accounts and operations of these gas undertakings:

Local Authorities

	1910-1911	1909-1910	+Inc. or −Dec.
Number	298	293	+5
Capital outstanding	£30,200,512	£30,478,862	−£278,350
Receipts	£10,829,758	£10,398,263	+£431,495
Expenditure	£7,902,451	£7,710,985	+£191,466
Ratio to income (%)	72.95	74.15	−1.19
Net revenue	£2,927,307	£2,687,278	+£240,029
Equivalent return on capital (%)	9¾	8¾	+1
Gas sold (feet 1,000's)	67,491,765	65,352,790	+2,138,975
Length of mains (miles)	14,102¼	13,757¼	+345
Consumers (number)	2,666,146	2,590,279	+75,876
Public lamps	349,120	343,021	+6,099
Approximate average charge per 1,000 feet	s. d. 2 6	s. d. 2 5¾	s. d. −0 0¼

	Companies		
	1910-11	1909-10	+Inc. or −Dec.
Number	511	501	+10
Capital outstanding	£92,193,191	£90,120,962	+£2,072,229
Receipts	£20,446,438	£19,951,779	−£494,659
Expenditure	£15,308,928	£15,097,658	+£211,270
Ratio to income (%)	74.87	75.67	−00.80
Net revenue	£5,137,510	£4,854,121	+£283,389
Equivalent return on capital (%)	5⅝	5⅜	+¼
Gas sold (feet 1,000's)	115,342,163	112,334,153	+3,008,010
Length of mains (miles)	22,020	21,473	+547
Consumers (number)	3,751,703	3,573,796	+177,907
Public lamps	371,665	369,882	+1,783
Approximate average charge per 1,000 feet	s. d. 2 9	s. d. 2 9¼	s. d. −0 ¼

We have no detailed report permitting us to follow up the comparison between the results of operation by private companies and by local authorities. But, in any event, although municipalities have been furnishing gas in Manchester since 1824, and in Beverly and Carlisle since 1850, their example has not been followed generally, since private companies are still supplying gas to two-thirds of the population.

2. The first electric installations were established at Eastbourne and Hastings in 1882, and in London in 1885. Bradford created the first municipal plant in 1889.

An act of 1882 authorized local authorities to buy up companies at the end of twenty-one years, and afterward, at the end of successive seven-year periods.

In determining the purchase price only the market value of land, equipment, material, etc., was to be taken into account. No other compensation was to be paid. The object of the act was to prevent the construction of any more private plants.

The local governments were naturally anxious to protect their gas plants against any possible competition. The testimony of Mr. S. Chisholm, provost of Glasgow, before the committee of 1900, offers a typical example of this policy. Municipalities wanted authority to construct electric plants only in order to prevent private companies from doing so.

The City of York obtained a provisional order in 1892, but it did not supply electricity until 1900. Birkenhead waited from 1886 until 1900; Bristol, from 1883 to 1893; Greenwich, from 1883 to 1889. Four years appeared to be the average delay, according to the table submitted by Campbell Swinton, which includes a list of fifty-four municipal electric lighting orders. The local authorities were evidently more anxious to prevent action by others than to enter into the business themselves.

In order to protect the interests of its gas plant Birmingham required, as the condition of its approval of the Birmingham electric supply company in 1890, that the latter should supply only the principal streets of the city. In 1898, however, the company being prosperous, the city decided to purchase.[1] At the time the negotiation was completed the market price of each share was £10 10s 0d, a figure which would naturally

[1] Raymond Boverat, *Le Socialisme Municipal en Angleterre et Ses Résultats*, p. 190.

form the basis of the purchase price. The municipality paid £420,000 ($2,045,000). Lost taxes and sinking fund payments amounted from the beginning to £17,000 ($82,800); that is to say, to £4,000 ($19,000) more than the profits realized by the company in 1897. In March, 1901, after fifteen months of operation, the deficit was £4,175 ($20,332); in 1902-1903 it had reached £4,813 ($23,239). The number of consumers was 5,000, out of a population of from 600,000 to 700,000; and this small number was being supplied at the expense of the whole body of taxpayers.

It is not enough for an industry to be municipalized in order to bring in customers. Bath [1] bought out, for £24,500 ($119,315) an enterprise which had cost its founders £43,000 ($209,400); but municipalization did not furnish it with consumers. In 1900-1902 the plants upon which the municipality had expended £7,800 ($38,000) were out of use, and the engineer estimated the sum necessary to put them back into condition at £70,000 ($341,000). The town found no company willing to take up the business. It therefore continued to operate, but at a loss. In 1909-1910 it had lost £1,335 ($6,500) and in 1910-1911 £157 ($764).

A local government board return has been devoted to accounts of municipal enterprises during the four years from 1898 to March 31, 1902. We give below the results of the gas and electrical enterprises to March 31, 1902:

[1] *The Times* (London), September 5, 1902.

	Gas	Electricity
Capital estimate by municipalities	£24,028,000	£12,508,000
Capital demanded	18,497,000	11,192,000
Average annual receipts	5,833,000	1,136,000
Expenses of operation	4,465,000	662,000
Maintenance and repairs	79,000	19,000
Gross profit	1,289,000	455,000
Interest and sinking fund	892,000	465,000
Net profit	397,000	.....
Net loss	.....	10,000

Gas, then, yields a profit. The gross profit was £1,289,000, or 5.4 per cent. on the capital invested. Any municipality might hope to obtain this gross profit.

But if we deduct the amount necessary to pay off the capital and pay interest, we would require a net revenue of 4.8 per cent. on the capital invested. This is allowing 3¼ per cent. for interest and an amortization period of 32 years. Then, if 4.8 per cent. be deducted from the 5.4 per cent. of gross profits, we find that the profit to the municipalities is about 0.6 per cent. Thus, the municipalities can reckon that they make a profit of a little more than 0.5 per cent. Such are the dazzling "results of numberless experiments" in England.

But Major Darwin shows that an interest rate of 3¼ per cent. is very low, and that it has a tendency to increase. It is true that the period of amortization can be lengthened, but a long period of amortization would be only an added burden.

Further, Major Darwin makes a relative calculation, based upon the gross profit of municipal operations of gas plants for several periods.

	Number of Enterprises	Annual Average Profits (%)
Before 1860	19	6.3
1860-1869	9	5.9
1870-1879	35	5.4
1880-1889	11	5.3
1890-1899	9	4.8

In these calculations the gross profit for the last period is lower than that during the years 1898-1902. Major Darwin therefore concludes:

"If we consider that local governments will have to pay 4.8 per cent. during the 32 years of amortization of capital, it can then be said that the profits on municipal operation of gas plants will vary from zero to a trifle more than ½ per cent. at the maximum. In any event, the later municipalizations of gas are less profitable than those which preceded them."

On March 31, 1904, out of 190 municipal electric enterprises 116 claimed a profit, while 74 reported losses amounting to £80,504 ($392,054). The last report of *Municipal Trade* is dated June 2, 1909, and it includes only a few Scotch cities. It gives no details regarding capital, and only the annual receipts and expenses. In Edinburgh, in 1902-1903, the excess of gas receipts was £3,303; in 1903-1904 the deficit was £3,397; in 1904-1905 the excess was £5,965, but it fell again in 1905-1906 to £1,460.

For electricity the excess of receipts was £14,532 in 1902-1903; in 1903-1904, £23,997; in 1904-1905, £21,143; in 1905-1906, £16,539.

In Glasgow excesses of receipts occur regularly, but they are subject to extreme variations.

The municipalities which operate electrical plants have an excellent customer in their tramways, to the operation of which electricity was first applied in 1885.

According to the *Municipal Year Book* for 1912 local authorities to the number of 140, having obtained from the Board of Trade the "orders" provided for by acts of 1882, 1888, 1889, and 1909, turned them over to private companies, whereas only 20 municipalities had made use of the privilege to buy out companies and substitute public for private operation.

In London the City Corporation, the Camberwell Borough Council, and the Lambeth Borough Council have the right to buy existing plants in 1927, and the London County Council in 1931.

In 1910-1911 the following 47 local authorities, which were operating 16 electrical installations, were doing so at a loss:

Acton, Alloa, Bangor, Barking Town, Barnstaple, Bath, Batley, Beckenham, Bury St. Edmunds, Buxton, Cambuslang, Clacton, Cleckheaton, Dorking, Dudley, Elland, Farnsworth, Frome, Gillingham, Gravesend, Hastings, Hereford, Heywood, Hove (Aldrington), Kendal, Kingston-on-Thames, Kirkcaldy, Leek, Loughborough, Maidstone, Middleton, Morley, Paisley, Rathmines, Redditch, Rhyl, Stalybridge, Hyde, Mossley, Dukinfield, Surbiton, Todmorden, Torquay, Wakefield, Weymouth, Whitby, Whitehaven, Wigan, Wishaw, Worcester.

A number of local authorities were operating at a loss during the preceding year.

CHAPTER XII

TRAMWAYS IN GREAT BRITAIN

Tramways in Great Britain.—Opposition of the Municipalities first to Tramways, then to the Omnibus Automobile.—The Light Railways Act and the Municipal Journal.—The Tramways of Glasgow and the Street Railways of Boston.—Birmingham.—The Tramways in the United Kingdom and in the United States.—Paralysis of Private Undertakings and Weakness of Municipalities.—Policy of Arbitration and Privilege.—Sheffield: Robbing the Poor to Give to the Rich.—The London County Council and the Tramways.—Advantages of Employees.—Reduction of Transportation Rates at the Expense of the Taxpayers.—Apparent Profits and Actual Losses.—Situation of the London County Council Tramways.

When in 1870 Mr. Shaw Lefevre (the present Lord Eversley) introduced a bill granting to municipalities the right to construct tramways, he declared that his object was not to "authorize municipal operation."

However, certain municipalities gave the bill a significance that its author never intended, and by interfering with the construction of tramways by private companies, further action on the part of the towns themselves was, of course, indirectly promoted. The bill gave to local authorities the right to purchase at the end of 21 years, "by paying the value of the tram-

ways, buildings, lands, etc., but making no allowance for past or future profits of the enterprise, nor any compensation for forced sales and other considerations." It was to no purpose that it was demonstrated to the committee of Parliament that a period of only 21 years was too short.

As a result the tramways already constructed suffered a heavy depreciation, and English capital, which might have been devoted to enterprises of this character, was invested in foreign countries. The large cities, anxious to keep their citizens within their own limits, for fear of losing taxpayers, not only forbade any extension of the tramway lines, but likewise set their faces steadily against the introduction, first of steam tramways, then of electric tramways.

The act of 1870 did not apply to Ireland. Therefore a certain contractor, named Murphy, was able to make a proposition to Dublin to establish electric tramways there, purchasable only at the end of 42 years, at an increased valuation of 33 per cent. He even offered to hand over a fixed percentage of the receipts. But the partisans of the municipalization of tramways in England and Scotland had sent delegates to combat these proposals—a proceeding which retarded their acceptance for two years.

The municipalities appealed to the act of 1870 to prevent the construction of tramways by private companies, and, as has already been said, opposed every method of transportation which might compete with their own enterprises. In 1905 the town of Newcastle fought the introduction of omnibus automobiles which the Northeastern Railway Company intended to op-

erate on the streets. The committee of the Municipal Corporations' Association granted the desired authority, but with the restriction that passengers could not be taken up en route. Mr. Bonar Law, parliamentary secretary of the Board of Trade, opposed this reservation, remarking:

"Even though municipalities are engaged in an industry, is this a reason for giving them a monopoly which would not be granted to anyone else in the business? The question whether the House of Commons is to govern the municipalities or whether the municipalities are to control the House is beginning to present itself."

The restriction was rejected by 127 votes to 110.

In 1896 Parliament adopted the Light Railways Act, designed to facilitate construction of such railways in Great Britain; its duration, however, was limited to five years. After that the law would have to be repassed each year. The act did not define the light railway, and, as a result, tramways have been included under this title. Therefore, they could no longer be purchased as provided in the act of 1870. At the end of 1903, 244 requests had been received for the application of the Light Railways Act, involving 870 miles of lines, and the committee had authorized 127 tramways having a length of 592 miles. This small proportion indicates the pressure brought to bear by the municipalities upon the government on the one hand, and upon their own citizens on the other.

Nevertheless, when in 1901 Mr. Gerald Balfour, president of the Board of Trade, submitted a bill, asking that this act be extended for a further period

of five years, he met with the violent opposition of the Municipal Corporations' Association, an organization designed to extend municipal powers and to intercede for the towns with the government and Parliament.

The *Municipal Journal*, the organ of the Municipal Socialists, observed: "We will not permit this bill to take a permanent place on the statute books. The astute promoters of tramways have simply found in it a means of escaping the restrictions of the Tramways Act of 1870, and to avoid the embarrassing purchase clause." The *Journal* continues: "When, at some future time, the rural districts are able to obtain their current at half the price that it costs to purchase from the municipal corporations, the consumers in the large towns will no longer be willing to continue to pay the present high rate. They will demand to be placed in the same category as the consumers outside the city, and they will have justice on their side. What, then, will become of the municipal electric plants?" After two attempts Mr. Balfour withdrew the bill, the government not daring to enter into conflict with the association.

In 1870 Glasgow was granted authority to construct and operate its tramways. It did not decide to do so, however, until 1894. It then introduced a fare of ½*d*, and raised the wages of its employees. In 1899 it exchanged horse cars for electric cars. Finally the municipality decided that it had an interest in owning all the property along the tram lines beyond its own immediate limits, and in articles in the *Times*, for 1902, the town was accused of having devoted to real

estate transactions profits which should have been applied to paying off the debt on the tramways.

In 1902-1903 Mr. Hugo Meyer, an American, formerly a professor in the University of Chicago, made a comparison between the tramways situation in Glasgow and that of the street railways in Boston, the latter owned by a private company. The street railways in Boston were paying the city a sum of $432,500, or 13.1 per cent. of the gross receipts, equal to 44 cents per inhabitant. The Boston elevated railway, serving a smaller population than that of Glasgow, pays to the city in cash and in services $1,550,000, or nearly 13 per cent. of its annual income, which is at the rate of $1.67 per inhabitant. In 1904 Boston had one mile of street railway for every 2,300 inhabitants, while Glasgow could boast of only one mile for 6,700 inhabitants.

Birmingham imposed such conditions upon the company to which it had granted a franchise that, at the end of 1904, it had only one mile of tramways for 8,700 inhabitants.

In 1890 the cities of the United States having more than 50,000 inhabitants had 3,205 miles of street railway; England alone, proportionally, ought to have had 3,190. The entire United Kingdom had only 984 miles. In 1896 the United States had 10,000 miles of electric railways; the United Kingdom had 20. It is admitted that the urban population of the United States and that of the United Kingdom are the same. In June, 1902, in the United States there were 14,000

miles of electric railways within the limits of cities. In March, 1904, in the United Kingdom there were only 3,200. The inhabitants of British cities thus have at their disposal less than one-quarter of the facilities afforded to the citizens of the United States by this method of transportation.

Mr. Meyer sums up the situation in his book, entitled *Municipal Ownership in Great Britain:*

"The paralysis of private enterprise by reason of the doctrine that the profits which would be made by public utility undertakings established in the streets should belong to the public and not to 'private speculators' has been complete and permanent. Equally complete and permanent has been the powerlessness of municipalities to fill the void that has been made by paralyzing private enterprise."

They keep others from doing what they do not do themselves. Such is the true result of the efforts of municipal Socialists in England.

Municipalization involves an arbitrary policy combined with a régime of privilege. On the one hand, we have taxpayers who are making contributions in order that a minority of users may have gas and electricity, or that the passengers in the street cars may ride below cost; on the other, we have consumers of gas, as at Nottingham, who complain that they are forced to pay an exorbitant price for their gas in order that the municipality may lower the taxes.[1] At Sheffield the town proposed to apply the profit realized

[1] See H. Davies, *The Cost of Municipal Trading.*

from the tramways to cover a deficit in the local taxes, a proceeding which would have necessitated a rise in the general district rate of *2d* on the pound. The workingmen, however, declared that, being the true users of the tramway, the alleviation of the local taxes would be at their expense—a policy tending to rob the poor to help the rich.

Certain tramways were taken over by London by virtue of acts of Parliament. The courts interpreted these acts in such a manner that the stockholders found themselves despoiled, while the London County Council was in a position to become proprietor for a sum very much less than the real value of the stock. It was thus easy enough to draw at least temporary profits from the enterprise. The Council subsequently leased the tramways north of the Thames to a private company, but decided to operate the tramways south of it on its own account. The value in capital of the two systems is very nearly the same, £850,000 being invested in the northern system, and £896,000 in the southern. The northern system is rated for tax purposes at £18,000 more than the southern system.

In 1900 the profits of the northern system were £39,000, and those of the southern £51,774, a magnificent result, which might well be cited in favor of direct operation of tramways by the city. But this state of affairs lasted only a year. During the following years it was reversed:

	System Operated by the Company	Municipal System
1901	£40,151	£14,325
1902	37,450	9,062
1903	.....	Loss 2,250

At the time when the London County Council undertook the operation of the southern system it was yielding a net profit of £64,000 ($311,680).

Why this substitution of loss for profit? The following reasons have been given: Increase in salaries of employees; establishment of the 10-hour day; rate reductions; and, in 1903, a slight increase in the income tax.

From 1900 to 1902 the profits of the southern system were £75,161; those of the northern, £116,601—an advantage on the side of the private company of a difference of £41,440. The *Statist* finds a greater difference. In an article upon the tramways of London it observes: "Since 1894, the date on which the council became interested in tramways, out of total profits of £326,581, £314,347, or 96 per cent., have been made by the private enterprise."

In order to justify this decrease in the receipts of the municipal undertaking the partisans of municipalization say: "The situation of the employees has been improved." Very good; but if this improvement places municipal employees on a different footing in the way of salary from that of the employees of private companies, these municipal employees become a privileged class at the expense of the whole body of taxpayers; a small number of people thus profiting at the expense of everybody else.

"But transportation rates have been reduced." Again, very good; but, if transportation constitutes a loss, the gift that the London County Council is making to the passengers it transports is being paid for by all the taxpayers.

Finally, the loss has been ascribed to the methods of electric transportation recently introduced. But the private companies have also had to introduce this change.

Municipalities operating tramways show the same weaknesses as the states which operate railroads.

In 1905-1906 the southern system claimed a profit of £4,000 ($19,480). But Mr. Haward, treasurer of the London County Council, admitted before the committee of the Municipal Corporations' Association that, if the payment of the penny tax per car mile for renewal had been enforced, there would have been a loss of £4,000, or a difference of £8,000.

Now the London County Council has declared that, since 1900, the southern system has brought in £23,900. The difference just quoted of £8,000 would then reduce this profit to £15,900.

The report of the auditor of the Local Government Board (referring to the accounts of 1904-1905) called attention to the inadequacy of the fund devoted to renewal, as well as to the custom of holding the tramways responsible for only a third of the expense of maintenance of that portion of the streets which they occupy. This latter custom of charging the expenses of one account to another is an easy method of increasing apparent profits, or of diminishing actual losses. In any state or municipal enterprise it is very difficult to obtain honest and intelligible accounts.

The *Statist*, of June 30, 1906, proves that the amount set aside to provide for wear and tear (depreciation), even during a satisfactory year of oper-

ation, is only 1.1 per cent. The sinking fund is 2 per cent. This makes a total of 3.1 per cent. a year. The figure is clearly inadequate; but, if it were increased, the apparent profits, small enough at best, would be changed into losses.

The following table shows the situation of the London County Council tramways at the end of the fiscal year 1910-1911 (*The Municipal Year Book*, 1912, page 618),[1] when the debt was £9,455,500:

	£	s	d
Receipts of operation	2,232,817	15	10
Expenses of operation	1,337,769	13	1
Excess of receipts over operating expenses..	895,048	2	9

Capital charges amounted to £662,231, leaving net receipts amounting to £232,727, of which £129,229 was reserved for the renewal fund and £103,498 for the general reserve fund.

Results clearly prove that the London County Council is always operating at a loss. The report of the Highways Committee of the London County Council (see *The Municipal Year Book*, 1912, page 618) states that the tramway receipts for the year ending July 10, 1912, are £633,588, instead of £659,274, the figure for the preceding year, a relative decrease of £26,000 from the previous corresponding period.

The report declares that this decrease is owing to an increase in the competition of other methods of transportation. The tramways carry passengers only

[1] The *Municipal Year Book* for 1913 not having yet appeared, I must make use of the figures quoted in the edition of 1912.

during two periods of the day, while the railway tubes and the motor omnibuses travel through crowded districts during the middle of the day. Therefore the committee demands the extension of its system upon these streets. It has submitted a preliminary plan which provides for an added expenditure of £600,000 ($2,922,000).

Last year the Highways and Improvements Committee proposed the construction of a tramway upon St. Paul's bridge, extending to the west end of Cheapside. The London County Council demanded that the bridge be used to connect the northern and southern tramway systems. The cost of the project was estimated at £1,631,200 ($7,943,900), to which must be added £350,000 ($1,704,500) demanded by the city for the enlargement of St. Paul's churchyard. The committee insisted upon a shallow underground tramway between the southern end of Cannon street and Cheapside.

The whole report and the plans that it includes reveal the mentality of these administrations. An enterprise is not successful. This unpleasant state of affairs is due to private competition. Then drive out private competition. The decrease in the receipts is not disquieting, so long as the expenses are increased. Consequently all sorts of extravagant plans are proposed.

Such being the financial results of the operation of the London County Council tramways, its partisans enumerated the following advantages (see *The Municipal Year Book*, 1912, page 619):

a The relief of the tax rates from the profits of the enterprise.
b Institution of all-night service.
c Workmen's cars.
d Rate reductions upon many lines.

But, above all, they insist upon the advantages obtained by employees from:

e Establishment of the 10-hour day for all employees.
f One day's rest in seven.
g Increase of salaries.
h Furnishing free uniforms.
i Annual vacations of six days with full pay.
j Since 1909 the establishment of a conciliation board.

Whence we may legitimately draw the following conclusion: Municipal service must, above all, confer advantages on its employees. Such undertakings of right belong to them.

The Municipal Year Book, of 1912, publishes the following summary of the situation of the tramways and light railways in the United Kingdom, according to the latest reports of the Board of Trade:

Local Governments

	1910–1911	1909–1910	Increase	Decrease
Undertakings owned (number)	174	176	....	
Total capital outlay (pounds sterling)	51,147,236	49,568,775	1,578,461	
Lines open (miles).	1,744¼	1,710¼	34	
Cost per mile (pounds sterling)	29,323	28,983	340	

Local Governments (*Continued*)

	1910–1911	1909–1910	Increase	Decrease
Undertakings worked (number)	136	136		
Capital outlay (pounds sterling)	45,393,284	44,108,250	1,285,034	
Tracks operated (miles)	1,530½	1,503¼	26¼	
Gross receipts (pounds sterling)	9,996,327	9,487,434	508,893	
Working expenses (pounds sterling)	6,146,947	5,887,243	259,704	
Ratio to income (per cent.)	61.49	62.05	.....	0.56
Net revenue (pounds sterling)	3,849,380	3,600,191	249,189	
Equivalent return upon capital (per cent.)	8½	8⅛	⅜	
Car distance run (miles)	221,646,847	212,465,787	9,181,060	
Net revenue per car mile (pence)	4.16	4.06	0.10	
Net revenue per track mile (pounds sterling)	2,515	2,394	121	
Passengers carried (number)	2,231,731,639	2,102,438,010	129,293,629	
Average fare per passenger (pence)	1.04	1.05	0.01	

The following table gives the figures for the tramways owned by private companies:

Private Companies

	1910–1911	1909–1910	Increase	Decrease
Undertakings owned (number)	122	124	.....	2
Total capital outlay (pounds sterling).	24,525,590	24,372,884	152,706	
Lines open (miles)	852¾	851½	1¼	

Private Companies (*Continued*)

	1910–1911	1909–1910	Increase	Decrease
Cost per mile (pounds sterling).	28,760	28,623	137	
Undertakings worked (number)	138	141	.....	3
Capital outlay (pounds sterling).	30,069,172	29,556,166	513,006	
Track operated (miles)	1,059¼	1,051¾	7½	
Gross receipts (pounds sterling).	3,780,674	3,590,467	190,207	
Working expenses (pounds sterling).	2,353,994	2,244,871	109,123	
Ratio to income (per cent)	62.26	62.52	.....	00.26
Net revenue (pounds sterling)	1,426,680	1,345,596	81,084	
Equivalent return on capital (per cent.)	4¾	4½	¼	
Car distance run (miles)	88,847,396	85,378,890	3,468,506	
Net revenue per car mile (pence)	3.85	3.78	0.07	
Net revenue per track mile (pounds sterling)	1,346	1,279	67	
Passengers carried (number)	675,445,481	640,751,429	34,694,052	
Average fare per passenger (pence) ...	1.24	1.24		

The losses reported on tramways operated by local governments in 1910-1911 affected the following 27 municipalities: Birkenhead, Blackburn, Bournemouth, Colchester, Darlington, Dover, East Ham, Edith, Ilkeston, Ipswich, Kilmarnock, Lancaster, Leith, Lincoln, Lowestoft, Maidstone, Nelson, Oldham, Perth, Pontypridd, Rawtenstall, Southport, Stalybridge, Hyde, Mossley, Dukinfield, Widen.

The above tables do not give the rates of depreciation. It is a pity that *The Municipal Year Book* has not included them. But, besides the 27 local governments which have reported their losses, there are no amounts recorded for depreciation and reserve for Derby, Halifax, Walthamstow, West Ham (in 1909-1910), Yarmouth.

In one of the best administered municipalities, Birmingham, the amount set aside for depreciation and reserve is £24,413 out of total receipts of £318,-882, which is a little more than 7.6 per cent.[1] At Glasgow it is £202,579 out of receipts amounting to £949,488, or more than 21 per cent. This difference between the two figures proves that the first is too small. The advocates of municipalization will not fail to point out the Glasgow figure, because it looks well and increases the average, but it is altogether exceptional.

[1] 7.6 per cent. on revenue is approximately equivalent to 1.5 per cent. on capital investment.

CHAPTER XIII

HOUSING OF THE WORKING CLASSES AND PUBLIC OWNERSHIP IN GREAT BRITAIN

Condemnation for Sanitary Reasons.—Expropriation and Sanitation.—Dispossessing and Housing.—Gross Receipts Apparently Concealed.—Bookkeeping Artifices.—Miraculous Results.—Comparative Figures.—The Accounts of Birmingham.—Glasgow.—Liverpool.—Manchester.—Sheffield.—Salford.—Selecting Tenants.—Weakness of Group and Strength of Individual Initiative.—Edwin Cannon.—Lord Rosebery.—"You Dispossess More Than You House."—Bernard Shaw.

In a bill introduced by M. Siegfried, and passed by the French Chamber of Deputies, on the 22nd of April, 1912, as also in a similar bill providing for the condemnation of property for sanitary reasons, introduced by M. Honnorat, reference was duly made to the example of England by a citation of the *Housing of the Working Classes Act* of August 18, 1890.

By this act local governments are authorized to demolish houses adjudged unsanitary, providing compensation therefor, it is true, but with deductions in the amounts allowed, based upon the different degrees of existing overcrowding and lack of sanitation. Later the legislators made up their minds that they were not doing their duty by simply putting the

inmates of such houses into the street in order to improve their condition. Therefore, they proceeded to authorize the towns to construct and even to manage houses for the working classes, granting them a right of condemnation in order to procure the necessary land. If the towns failed to provide as many lodgings as they had destroyed, or if they were not provided until a long time afterward, so much the worse for those who had been dispossessed.

The energy in this direction of the London County Council is pointed to with admiration and enthusiasm by all interventionalists.

According to its report of October 7, 1911, the London County Council had carried out altogether 35 plans of expropriation and reconstruction from 1893 to March 11, 1911. It had demolished buildings containing nearly 23,000 rooms, occupied by 42,000 persons, and furnished rooming houses occupied by about 3,000 people, or in all 45,000 tenants. It had constructed buildings aggregating 6,428 rooms, 2,519 cottages, and three lodging houses with 1,849 bedrooms for single men. Counting 2 persons to a room in these houses the Council had thus lodged 51,836 persons.

During the period mentioned a capital of £2,879,000 ($14,021,000) had been invested in these undertakings, bringing in a gross income of £207,340 ($1,009,700). Interest and sinking fund charges on a 60 years' basis absorb 49.60 per cent. of the receipts. The expenses of management, including repairs (7.52 per cent.), taxes, water, light, etc., represent 39.78 per cent. of the gross receipts, uncollectible rents, 0.19 per

cent., and losses on worthless paper 9.51 per cent. Thus, we dispose of 99.08 per cent. of the gross receipts, and reach the following imposing result:

"This gigantic housing undertaking is entirely self-supporting, without recourse to the general resources of the budget. It even yields profits which vary from £500 to about £1,100."

But all the expenses for these municipal lodgings were not charged to the municipal lodgings account, as the following fact shows:

When the London County Council paid £200,000 ($974,000) for the site of the Reid brewery, it entered the property on the housing account at £45,000, and charged the remaining £155,000 to the general improvement account.[1]

For the year ending March 31, 1911, the total expense for condemnation and construction was £2,015,833, and the income £1,876; that is to say, less than nothing. With the addition of £120,242 for administration costs, the deficiency of revenue is £3,950, which, of course, more than absorbs the small surplus noted above.[2]

All right, say the advocates of municipalization. Business *is* bad, from the financial point of view, but, from the standpoint of sanitation, a service has been rendered for which too high a price could not be paid.

Out of a population of 4,537,000 people the London

[1] *The Times* (London), October 21, 1902.
[2] *Municipal Year Book*, 1912, page 752.

County Council has dispossessed about 45,000 individuals. It has housed 51,856. It has not created new homes; it has only brought about displacements. For it is scarcely probable that the victims of these forcible evictions occupy the new or reconstructed municipal lodging houses.

In the report of the Commission of the Municipal Council of Paris, on the subject of cheap housing, M. Rousselle and his collaborators say:

"We can testify to the fact that for several years the mortality due to tuberculosis, which in Paris is still 34 out of every 1,000 inhabitants, has fallen in London from 60 to 19 inhabitants per thousand. This outcome is owing in large measure to the work undertaken by the London County Council, a work which this single result would serve to justify, if such justification were necessary."

In other words the London County Council moves 1 per cent. of the population and the mortality from tuberculosis immediately drops 66 per cent.

This result is truly miraculous, but the most striking feature of the whole statement is the tremendous disproportion between given cause and effect.

In connection with municipal housing in Plymouth *The Municipal Year Book* [1] gives the following data:

	Average Mortality per 1,000	
1896-1905	1886-1895	Decrease
18.47	21.21	2.47

This reduction equals, we may add, 325 lives saved annually.

[1] *Municipal Year Book*, 1912, page 775.

Now, the Council of Plymouth has constructed:

1°	264 rooms
2°	606 "
Total	870 "

Without overcrowding, not more than two persons can well be counted to a room. This gives us 1,740 inhabitants housed out of a population of more than 125,000. It is a little difficult to see how the housing of 1,740 people can possibly save the lives of 323 persons each year.

At Birmingham buildings were demolished under pretext of sanitation, but the land was not used to build new houses for the working classes.

Mr. J. S. Nettleford, president of the Housing Committee of Birmingham, testified, in 1905, that the rents of the houses on Ryder and Lawrence streets were far above the means of the unfortunate tenants dispossessed by the improvement committee. The result of these improvements has therefore been the taxation of the many for the benefit of a few individuals, "a detestable commercial operation."

The Estate Committee published accounts in which there was no mention whatever made of the value of the land upon which the houses were built. But a little note appeared at the bottom of the page, saying that the credit balance was equal to a ground rent of x per yard. At the conference of June 7, 1901, a councillor demanded the price of the land; whereupon it was found that an investigation would be nec-

essary in order to discover it. Mr. Nettleford [1] quotes the results obtained from this investigation:

	Accounts of the Committee Excluding Price of Land	Accounts Including Price of Land	Charges per Lodging and per Week to be Met by Taxation
	Credit Balance	Debit Balance	
Ryder Street:	£ s d	£ s d	s d
22 cottages.....	83 1 5	153 3 7	2 8
Milk Street:			
61 cottages.....	140 10 2	383 19 2	2 4

Birmingham does not appear to have kept up the experiment.

Glasgow (802,000 inhabitants) commenced razing buildings in 1866. Naturally, it soon found itself saddled with an over-supply of land which the authorities were anxious to sell at exorbitant prices. As no purchasers were to be found under such conditions the corporation decided, about 1888, to build on its own account.

Instead of houses designed for workingmen the corporation constructed types of buildings more in keeping with the costly sites on which they were to be built. On May 31, 1905, the net cost of these structures amounted to £1,244,033 ($6,058,440), while the value of the lands and of the buildings was estimated at £923,165 ($4,495,800). A deficit of £320,868 ($1,562,640) was the final result. Fifty thousand people were driven out of the slums, but the city did not furnish them with lodgings. Instead, it constructed imposing houses and shops. Moreover, while awaiting the destruction of the condemned buildings,

[1] *A Housing Policy.*

the improvement trust continued to rent the most unsanitary of these buildings.

In 1911 the net result of the whole movement was 2,149 lodgings for the families of the laboring classes. The income from them is £25,000 ($121,750), which allows a payment of 3¼ per cent. interest and one-third of the amortization.

Liverpool has 759,000 inhabitants. It has constructed buildings representing a total of 2,686 lodgings. Condemnation and reconstruction have cost £1,000,000. In 1909 the net income was £21,711, or 2.17 per cent. The losses on worthless paper amounted to 6.74 per cent. Taking into account repairs, costs of administration, etc., the city of Liverpool collects 1½d per pound sterling invested.

In Manchester (865,900 inhabitants) the financial results have been similar to those of Liverpool. Between 1845 and 1905 the city has rented 7,432 houses, 3,334 having been reopened after being renovated. The net income in 1910-1911 was £7,262 or 3.80 per cent. on a capital investment of £189,366. After deducting interest and sinking fund there is a loss of one penny per pound.

Leicester (227,242 inhabitants) has constructed two buildings, containing 42 apartments.

Richmond (36,493 inhabitants) has built 135 houses, which are bringing in £2,455 annually to offset an outlay of £38,683.

Folkstone (36,000 inhabitants) constructed 50 houses and then stopped.

At Sheffield the corporation bought a three-mile tract of land on the side of a hill, in the neighborhood of very valuable real estate. It was said that the object of certain municipal councillors was to play a good joke on the owners of this property. In the end the city was not only forced to buy more land, in order to construct a roundabout road, but, by an order of the King's Bench Division, it had also to pay a considerable indemnity to the aforesaid proprietors for the depreciation in value of their property.

Salford (231,380 inhabitants) has displayed very great activity along the direction of housing the working classes; 2,236 houses have been declared unfit for habitation, and 2,982 others have been reconstructed. In addition to these efforts, one building containing 69 apartments, 405 four-room houses, 134 with five rooms each, 95 with 6 rooms, or in all 703 lodgings, have been provided. Then a cheap hotel, with 285 rooms, and a building containing 32 shops have been also built. The average rent is 1 shilling 4 pence per week, while in the rest of the city 5s and 5s 9d are paid for a 4-room lodging.

But since the motives which actuate committees appointed to select tenants may be of various kinds and more or less complex, it is customary for such bodies to favor tenants who are willing to offer a higher rent.

Here we have the sketch of the great municipal work of cheap housing in Great Britain. The London County Council has evicted 45,000 persons and lodged 51,000. Fortunately there are still a few individuals or private groups who construct houses, otherwise the 4,486,000 inhabitants of the city of London, for whom municipal lodgings are not provided, would be condemned to dwell in the open air.

But the action of the London County Council has at least brought about one result, for, since 1889, no more great associations are being formed in London for promoting public housing.

But has any service been rendered to the people by this attempt to paralyze private initiative?

"Every house which is built by public authority," says Mr. Nettleford, "prevents the construction of at least four houses which would have been built by individuals," and he cites striking examples from Birmingham.

"The partisans of municipalization conduct you," says Edwin Cannon, "past thousands of houses, lodging tens of thousands of inhabitants, to a half dozen houses built at a loss by the municipality and then say to you solemnly: 'Private initiative is weak'; when all the time the facts are demonstrating the strength of private and the weakness of municipal initiative."[1]

When the inhabitants of the slums do not go to live in the municipal houses the advocates of Municipal Socialism say: "But they can occupy the lodg-

[1] *The Economic Outlook.*

ings left vacant by those who do come to live in them."

The dispossessed are simply driven from hovel to hovel; they are not housed.[1]

Lord Rosebery, in a speech delivered at Shoreditch, at the ceremony of the opening of the workmen's houses, said: "You have lodged 300 families, but you have dislodged many more. That seems to me a droll way to house the poor."

Socialists are acknowledging the defeat of the movement. Bernard Shaw, however, while pointing out the practical impossibility of establishing municipal lodgings, concludes that the only solution to the problem is the municipalization of the soil.

[1] Boverat, *Le Socialisme Municipal en Angleterre et les Résultats Financiers.*

CHAPTER XIV

HOUSING OF THE WORKING CLASSES ON THE CONTINENT

1. Housing People of One Class at the Expense of Those of Another.—Private Initiative.—The Call of the City and Return to the Soil.—Pretexts.—Foreign Examples.
2. Germany.
3. Italy.
4. Belgium.
5. Holland.
6. Switzerland.
7. Austria.
8. Hungary.
9. Sweden and Norway.
10. Conclusions of the Report of the Municipal Council of Paris.—Denying Facts.—The Strength of Private Initiative.—Weakness of Municipal Efforts.
11. Conclusions.

1. There are men who, full of sympathy for their fellow men, wish to house them, feed them, and dress them, but at whose expense? The trouble is they want to house people of one class at the cost of another.

Of late years the activity of the partisans of municipalization and socialism has been turned toward the housing of the working classes, as if the term "working classes" alone were not sufficient to indicate the retrogressive character of such measures. They are

instrumental in creating a class apart, who are to be protected by other classes, utterly oblivious of that spirit of equality inculcated by the motto of the French Republic.

The interventionalists denounce the weakness of private initiative, as though up to the present it had not been responsible for the development of the cities which these same individuals, from an entirely different standpoint, so bitterly deplore. It never seems to occur to them that, by deluding the people of the rural districts into thinking that they will be offered desirable and more or less gratuitous homes, they are influencing them to leave the farms for the city. Their real motives are concealed within such vague terms as "public health," and "the housing crisis."

Nor are French interventionalists of all kinds ever at a loss for foreign examples. In their report to the Municipal Council of Paris (1912), upon the housing crisis, and the creation of cheap homes, concluding with the recommendation for a loan of 200,000,000 francs by the city of Paris for the purpose of constructing cheap lodgings, MM. Henri Rousselle, F. Brunet, E. Desvaux, and D'Herbécourt review the legislation and practice of foreign countries. We congratulate them upon having at least made the attempt to support their thesis upon facts.

2. GERMANY:

In Germany it is customary for municipalities to ask for a direct loan from private associations and individuals and to supplement the sums so raised by municipal loans.

Düsseldorf borrows up to 60 per cent. of the value of its investment, with a 0.20 per cent. premium in the rate of issue.

Frankfort (414,400 inhabitants) has constructed and rents 65 houses, containing 366 apartments.

Ulm (57,500 inhabitants) has provided separate houses, of which the family lodged therein becomes proprietor. During the years since 1891 it has owned 2,131 hectares (5,263 acres) of land. It has managed to dispose of 35. The city of Ulm congratulates itself upon the results it has achieved. Everything depends upon your point of view.

In 1896 Strassburg (173,280 inhabitants) began to construct houses and to manage them directly; it now owns 11 buildings, containing 98 apartments, occupied by 372 people.

Berlin (2,064,000 inhabitants) has done nothing along these lines; nor has Hamburg (802,800 inhabitants) any municipal lodging enterprises.

Freiburg im Breisgau (85,000 inhabitants) owns 77 houses, containing 266 lodgings, and costing 1,225,000 marks ($294,000), which sum was advanced at 3.75 per cent. interest by the savings banks. It was estimated that the rent should bring in 5.25 per cent. on the capital.

Magdeburg (279,600 inhabitants) has constructed 7 buildings, containing 50 apartments.

Barmen (170,000 inhabitants) has constructed 7 buildings, containing 50 apartments.

Emden (20,000 inhabitants) has constructed 228 houses. The capital invested by the village brings in 3.50 per cent. to 4 per cent.

Dresden (547,000 inhabitants) has constructed "out of resources provided by the *Krenkel Fund*" a model group of 5 houses, each containing 34 separate rooms. "In this work the question of financial return has been considered as wholly secondary." As a result, the inhabitants of these houses are a privileged class, who enjoy all sorts of advantages and pay 25 per cent. less than the usual rents. With the help of the *Krenkel Fund* the city has also undertaken the construction of two other buildings, containing 36 apartments.

Munich (595,000 inhabitants) has devoted 1,040,000 marks ($249,600) to the construction of 15 houses, containing 167 apartments, for laborers and other employees of the city.

3. ITALY:

Louis Rousselle quotes these words of Garibaldi, spoken at the time of the conquest of the two Sicilies:

"A government sprung from the people is before all else bound to provide for the first necessity of the people—commodious and sanitary homes at a moderate cost."

Certainly, if any people were ever badly housed it was the Neapolitans. I saw some of their hovels a long time after Garibaldi had pronounced these words. No change had been wrought by them in the filth and misery of the majority of the population. However, the true home of the *lazzerone* is the shore. The children swarm in the sun, and the sea air counteracts the pestilential atmosphere of the home.

The Italian law of May 31, 1903—modified in 1907

—has constituted an autonomous institution, "a sort of financial organization with social intentions," to quote the expression of Luigi Luzzatti, recently Minister of Foreign Affairs.

Public construction and control of such works are in force only in Venice, Parma, Reggio, Emelia, Vincenza, Sestri-Ponente, and Carrara.

Venice (167,000 inhabitants) owns 396 houses, lodging 2,000 persons.

Parma (51,300 inhabitants) has 82 houses containing 508 rooms, and sheltering 130 families, or 724 people.

Sestri-Ponente (23,100 inhabitants) has 11 houses, each containing 20 apartments.

4. BELGIUM:

Brussels (195,600 inhabitants) has appropriated sums for housing purposes amounting to 2,500,000 francs ($475,000). But our report declares that it is necessary to subtract half as devoted to sanitation. Thus, 1,250,000 francs ($237,500) remained to be applied to the experiment. On this basis the net cost of one rented room is 3,575 francs ($679). It is all quite simple.

The Commission estimates the total charges at from 15 to 30 per cent. of the rent. The bonds of the city of Brussels were issued at about 2.70 per cent., interest, premiums and amortization included. The annual rent of one room, taking into account the higher rent of small shops, will be about 98 francs 51 ($18.72).

Saint Gilles-près-Bruxelles (63,000 inhabitants) be-

gan in 1894 with 5 small, one-story houses. Later this system was abandoned, and the town now has a group of tenement houses, comprising 130 lodgings.

The loans contracted by the municipality are issued at 3.25 per cent., with an amortization charge of 44 centimes (9 cents), or 49 centimes (10 cents). This appears about to equal the average income.

5. HOLLAND:

A law of 1853 permits officials entrusted with the duty of looking out for house sanitation to enter any building, even in the night. The law of June 22, 1911, confers upon municipal councils the right of preventing the occupancy of unsanitary buildings and of regulating the number of people to a house. But no city has constructed or rents houses.

6. SWITZERLAND:

Geneva (145,000 inhabitants) has constructed buildings containing 43 apartments and 111 rooms.

Lausanne (65,000 inhabitants) has constructed 8 houses, containing a total of 24 apartments.

Zurich (191,200 inhabitants) began by building houses for its municipal employees. In 1907 it erected 25 buildings, containing 225 apartments; in 1910 it constructed 228 apartments, and 76 attic rooms. It is now planning to construct 370 new houses.

Bern (85,000 inhabitants) built 134 small houses, containing 182 apartments in 1895, and, in 1898, 25 new houses.

Neuchâtel (23,600 inhabitants) has built houses containing 47 apartments.

7. AUSTRIA:

In 1911 a plan was discussed in Vienna (1,999,900 inhabitants), involving an outlay of 480,000 crowns ($96,000), for the construction of temporary homes for the homeless.

8. HUNGARY:

In 1908 the Hungarian government proposed to the Chamber of Deputies to build a group of houses in the suburbs of the city of Budapest (791,700 inhabitants) capable of sheltering from 8,000 to 10,000 families. A credit of 12,000,000 crowns ($2,400,000) was opened to the ministry of Finance, and a tract of land, containing 169 hectares (417 acres), was bought at Kispest, while in the tenth district a second tract, containing 77 hectares (190 acres), was purchased. On May 1, 1911, 970 apartments were finished. In 1912, 2,000 other lodgings were to be open to rent. The work is to be finished in 1914. As tenants the preference is given to laborers and subordinate employees of the government. These houses are exempt from state taxes.

In 1909 the burgomaster of Budapest asked for an appropriation of 69,000,000 crowns ($13,800,000) for the construction of cheap lodgings. In all the city has constructed 26 buildings, containing 1,600 apartments, and costing 27,000,000 crowns ($5,400,000). On September 19th of the current year, it was decided to construct 1,000 more.

A special feature of the lodging schemes of Budapest has been the establishment of temporary settlements, containing 3,000 apartments, and expected to

last 20 years, at a cost of 8,100,000 crowns ($1,620,000). Still another special feature has been the construction of a furnished hotel, containing 500 beds. The city is planning to build others.

9. SWEDEN:

Stockholm (344,000 inhabitants) owns 12,000 apartments. According to the memorandum of M. Gunichard, one of the municipal directors of the city, 10,136 lodgings are to be considered as housing 21,000 persons, almost 7 per cent. of the entire population of the city. But "these apartments are situated in old houses, about to be demolished, and the city is trying to sell the land."

The government has also built houses for the benefit of government laborers and employees, especially for those connected with the railroad and telegraph services. In the city of Stockholm 443 apartments are reckoned to 1,700 people.

NORWAY:

Christiania (227,600 inhabitants) has built and rents two buildings, containing 152 rooms.

10. After their review (summarized above) of municipal housing in general, M. Rousselle and his collaborators on the Municipal Council say, with emphasis:

"The conclusion of this rapid review of the work accomplished abroad in the matter of housing the working classes is that in all the great cities the officials in power have approached the problem squarely and have at-

tempted to solve it by the most direct and energetic means."

Wherefore, there is bitter indignation against "France, which, alone among the great modern nations, obstinately refuses to municipalities the right of direct interference, despite the failure of private initiative and in the light of universal experience."

It is curious to note the different interpretations to which a single fact is susceptible. These municipal councillors speak of the failure of private industry and universal experience. But, without private initiative, where would ninety-nine one hundredths of the population of London be living? The irrefutable facts already enumerated show that, in most of the cities which construct and rent apartments, the privileged classes who occupy them form but an infinitesimal portion of the population. If individual owners had not housed for a long time, and were not still housing, less favored mortals, the great cities would not exist at all. And still another fact that should be observed in this connection is that, in a certain number of these cases, municipal lodgings actually constitute supplemental wages for employees and laborers.

From no possible point of view is the desire to house so many people justified, and, moreover, it threatens both political and social dangers in the future. For example, the Hungarian government establishes settlements of small homes near Budapest. Then the municipality of Budapest, in order to meet this competition, builds houses in its turn. I gaze

with awe on those states and cities which, while confronted with the necessity of husbanding their resources, have the courage to launch out into such extravagances.

According to the advocates of municipalization, all great cities should construct and manage workmen's houses. But when they cite facts in support of their contention, their facts prove precisely the opposite from what they intended them to prove. The majority of the great cities of the world neither construct nor administer houses for the benefit of the working people.

Nor have such cities as have undertaken this kind of work displayed the courage of their convictions, as the oft-quoted example of the London County Council proves. In cities containing hundreds of thousands of inhabitants lodgings are built for a few hundred people. Yet we French are airily urged: Imitate them! If we should imitate them in the same degree our undertakings would certainly not amount to much.

However, the following circumstance proves that the efforts of the promoters of municipal lodgings are bearing some fruit. The prefect of the Seine is demanding the creation of a public bureau of cheap lodgings, to which the city of Paris shall hand over the millions set aside according to the law of December 12, 1912, for that purpose. The plan provides that the bureau shall attend to the payment of interest, and the reimbursement—after 75 years—of the capital thus invested by the city.

But at what rate of interest can the city of Paris

borrow now (June, 1913)? The bonds issued at 3 per cent. on May 21, 1912, and rated at 285 francs, are now 250 francs; moreover, the housing bureau must be responsible for capital and all general expenses of administration, rental and up-keep at a gross rate of 2 per cent., as well as the expenses of control by the city of Paris at a gross rate of 0.15 per cent. It must set aside 0.50 per cent. for a reserve fund to cover the more costly repairs and unexpected expenses. We have thus a rate of over 5.65 per cent. Under such a system the city is supplying capital to an association which pays interest, builds, maintains, and rents, it is true, but which, at the same time, is neither more nor less than a monopoly, suppressing all competition, since it frightens private capital away from just such investments.

Conclusions.

1. The laws concerning unsanitary buildings are a new violation of the right of property.

2. The establishment of sanitary lists is designed to keep diseased inmates out of these buildings. But, in order to circumvent such regulations, proprietors will contrive to make all prospective tenants pass before a special examining health board.

3. Sanitary statistics of apartments belonging to municipalities are of no value, because the towns may choose their tenants.

4. We see the London County Council dispossessing 45,000 people and lodging 51,000. These latter are seldom or never the same people, and, therefore,

between the destruction and construction of houses, the unhappy tenants have found themselves housed under no better conditions than before.

5. Those cities which buy real estate increase the price of that which remains; consequently they are helping to achieve such an end. In constructing houses at all they are withdrawing this branch of industry beyond the reach of private enterprise, and, while they are driving individuals out of business by their competition, they are showing themselves incapable of providing for the needs that they are pretending to care for. In reality they are working in the interest of higher rents.

6. Then such cities are practically subsidizing associations more or less financial and philanthropic. These are frequently granted special privileges, as in France under the law of 1894, reinforced by that of 1906. Léon Bourgeois himself described the results of such laws as "sporadic." The departmental Committee on Patronage of Cheap Houses declares that: "The number of philanthropic associations is unimportant, and they are not modifying hygienic conditions in the housing of the workmen of Paris."

7. The law of 1906 has had at least one result: While philanthropic associations were showing their inefficiency individuals and contractors have hesitated to invest capital in the construction of small houses, fearing to see their property decrease in value by reason of the competition of privileged associations or of the city.

8. Statistics prove the conclusions above drawn.

The excess of buildings constructed in Paris over buildings demolished has been:

From 1901 to 1905, 43,475 ÷ 5 = 8,695 per year
1906 to 1910, 33,845 ÷ 5 = 6,769 " "

Or a difference between the two periods of at least 22 per cent.

The following table applies to tenements of 500 francs per year and under. These buildings are not taxed.

	Number of Buildings Constructed	Number of Buildings Demolished	Excess
From 1901-1905.....	37,159	12,243	24,916
1906-1910.....	28,792	11,605	17,187

Or at least 31 per cent.

As a matter of fact the housing crisis in Paris has been provoked by legislative and municipal intervention.

9. On the 11th day of July (1912) the Chamber of Deputies passed a resolution modifying the law of 1906 concerning cheap lodgings. In this law there is no mention of construction and direct public management by municipalities. Nevertheless, the *Journal Officiel,* of July 30, 1912, duly proclaimed the law as authorizing the city of Paris to borrow 200,000,000 francs ($38,000,000), in order to facilitate "the construction of cheap houses, or to acquire and make sanitary buildings already existing." The law as modified was placed on the statute books December 1, 1912.

In part compensation for this enormous outlay the prefect of the Seine proposed to levy taxes to the

amount of 11,000,000 francs ($2,200,000) upon tenants, owners, and billboards. He has been compelled to abandon the scheme, but meanwhile necessary work on the city streets has been at a standstill.[1]

[1] Since the foregoing statement was made, the project has again been advanced and has been incorporated in the budget of 1914.

CHAPTER XV

GOVERNMENT CONTROL OF FOOD SUPPLIES

Public Control of the Sale of Fish, Potatoes and Apples in Swiss Towns.—Eighteen Communes.—Losses.—Negative Results.—Competition with Private Business.—Municipal Slaughter House at Denain, France.—Experiment at Montpellier.—Three German Slaughter Houses.—Four Slaughter Houses at Vienna.—The Municipal Oven at Udine.—The Verona Fish Market.

To a questionnaire sent out to Swiss towns by Edgar Milhaud concerning markets operated by them [1] 74 towns responded; 33 returned purely negative answers; 41 have made some headway against the high cost of living; Glarus has leased a fish market to a merchant who has been authorized to raise his price from 10 to 20 centimes (2 cents to 4 cents) a pound above cost. Oerlikon had given to certain families the right to reductions of from 10 to 20 per cent. from all retail dealers, at the expense of the commune. In 1908 Romanshorn opened a public fish market: "No gains and few losses." Saint-Imier, Herisau, Rorschach, Schaffhausen have renounced similar attempts. Thun has leased a fish market.

At Saint Gall the sale of fish yields several hundreds of francs profit to the city, and has lowered

[1] *Les Annales de la Régie Directe,* Feb.-April, 1912.

the price of fish in the private market. The market is patronized, however, only by wealthy families or those in easy circumstances.

Zurich, three years ago, entrusted the sale of sea fish to a coöperative society, the Zurich Lebensmittelverein; the fish were sold at cost, plus a percentage to cover expenses. The administrative council of the society declared that "the attempts made to accustom the Swiss population to the use of fish food must be regarded as having failed." Zurich then organized cooking classes. The results of this latter experiment are not yet known.

Zug has established a municipal slaughter house. Freiburg bought and sold, in the autumn of 1910 and the spring of 1911, 193,000 kilos (474,600 lbs.) of potatoes, at a loss of 2,833 francs ($538). Lucerne, in 1911, sold 13 carloads of potatoes, 4 carloads of apples, and 2 carloads of carrots, for cash. The shipping costs were met by the town. In addition 43,750 kilos (96,250 lbs.) of coke were sold by the city. The undertaking ultimately resulted in a loss of 2,842 francs. In any event, the authorities of Lucerne can hardly be accused of supplying over-substantial nourishment to their fellow-citizens!

The town of Saint Gall caused vegetables to be sold by a coöperative society at cost price f.o.b. Saint Gall at the receiving point (the railroad station). The city paid the difference, which amounted to 400 francs a month. The sale was limited to "that part of the public without income." The total sales amounted to only 1,700 francs, the expenses to 6,131 francs, and

the attempt lasted only from the first of November, 1911, to February 29, 1912.

During the winter months 1910-1911 and 1911-1912, Bern undertook to purchase potatoes at wholesale and to sell them at retail. In the latter year, it added the sale of white cabbages. As a matter of course the experiment resulted in losses.

Lausanne, during several days in 1910, sold potatoes with a profit of 230 francs 15 centimes, and distributed a balance of 1,340 kilos (2,948 lbs.) gratis.

In 1911-1912 Zurich sold 550 kilos (1,210 lbs.) of potatoes at a loss of 901 francs 25 centimes which was reduced to 569 francs, following a reduction in the freight costs of 332 francs 25 centimes made by the Federal railways. "A reduction of the freight rates has been granted for the transportation of food supplies from October 1, 1911, to May 31, 1912, if the supplies are to be utilized for the public good."

Anybody who ships potatoes ships them for the public benefit since they are destined to provide food for those who buy them. This reduction, therefore, simply gave a subsidy to municipalities as against individual merchants. The figures that I have just reproduced prove that, if the Swiss, in order to live, had been forced to rely upon the municipality for their food in 1910-1911, they would all be dead of starvation.

As a matter of fact, 18 communes have made attempts at public regulation of food supplies, in order to combat the high cost of living. These are: Brugg (3,000 inhabitants); Weinfelden (4,000); Baden

(6,050); Grenchen (5,202); Romanshorn (6,000); Thun (6,030); Herisau (13,853); Le Locle (13,197); Rorschach (13,481); Schaffhausen (17,148); Freiburg (20,300); La Chaux-de-Fonds (39,497); Lucerne (38,467); Saint Gall (35,000); Basle (129,600); Bern (78,500); Lausanne (59,327); Zurich (180,000).

Milhaud concludes his article with this enthusiastic statement:

"As a result of these public services we have remarked the following cost reductions: Potatoes, from 12 per cent. to 24 per cent.; fuel, 15 per cent. to 50 per cent.; fish, 30 per cent. to 50 per cent."

Or in other words free competition is making a losing fight against public operation, and Edgard Milhaud considers this a most desirable state of affairs.

If the custom of providing government food should ever become general, it would be necessary for an individual to have great courage in order to engage in any similar undertaking in view of the prospect of being undersold by the municipality. The town can lose with impunity; the taxpayers will make up the loss. On the other hand, loss to a merchant means his whole financial standing in the community and that of those who may have placed confidence in him, all of whom have a right not to anticipate such disturbing factors as result from the intervention of municipalities turned merchants of potatoes, apples, cabbages, carrots, and fish.

The towns concerned would answer that their action was only one form of philanthropy. As a mat-

ter of fact, several of them did limit their sales to the poor. Others, however, did not take this precaution, and, in the majority of cases, they did not seek any justification for the measures they took.

I do not believe that the results of this investigation would encourage very many towns to follow the example of the 18 Swiss communes. They are such that it is not even necessary to furnish further arguments for an amendment to the law of 1884 prohibiting municipalities from going into business.

In 1911 there were several attempts in France to regulate the food supply. The mayor of Denain, M. Selle, opened a municipal slaughter house. Cattle decked with ribbons were conducted there solemnly to the tune of the "Internationale." At the end of one week the undertaking developed the following figures (in francs):

	Expenses
Purchase of animals	17,453.32
Management and inspection of animals	1,011.36
Total	18,464.68
	Receipts
Sale of meat	15,700.25
Sale of skins	1,365.51
Miscellaneous receipts	171.55
Total	17,237.31
Deficit in 7 days	1,227.37

The mayor called a halt. The indignant populace, whom he had promised to feed below cost, broke into his house, from which he managed to escape under

the protection of the police. Thereafter neither the mayoralty nor the municipal council knew him more.

At Montpellier an attempt at a municipal slaughter house was made, which resulted in a loss of 6,000 francs.

Edgard Milhaud, who sees all attempts at public ownership through rose-colored glasses,[1] has declared that at Eberwald, Thionville, and Freiburg-im-Breisgau the attempts at municipalizing a slaughter house were successful. According to the director of the abattoir of Freiburg, M. Metz, the experiment, which took place in 1895, was only temporary, and a burden while it lasted. The enormous waste, which may and does occur in such enterprises, renders management very difficult.

At Thionville experiments were made with pork in order to force the butchers to lower their prices. "The meager profits realized were divided between two old butchers who had been entrusted with the purchase, slaughter and sale of the meat." In 1905, at Vienna, four municipal abattoirs were established, which disappeared after a short period.[2]

All these undertakings are direct attacks on commercial freedom. In Italy[3] such attacks are made without scruple. Udine opened a municipal oven in order to ruin the existing bakeries. Verona sells fish to the injury of other fish merchants.

[1] *Annales de la Régie Directe*, 1908.

[2] The *Revue Bleue: La Municipalisation de la Boucherie*, by Henri Martel, director of the Veterinary Service of the Prefecture of Police.

[3] See Book 4, *The State, a Dishonest Man.*

CHAPTER XVI

VICTIMS OF GOVERNMENT OWNERSHIP

The Mayor of Elbeuf, M. Mouchel, and Gas Service.—The Mayor of Milwaukee.

A high school professor of Elbeuf, M. Mouchel, afterward mayor of that city for 17 years, and finally deputy, was attacked by the municipalization mania. He municipalized water, electricity, gas, the collection and disposal of garbage, and the burial of the dead. February 28, 1911, there appeared in the *Dépêche de Rouen* a highly eulogistic article extolling his work. On October 15 of the same year the mayor was obliged to confess that his attempts at municipalization were causing a deficit of 180,000 francs ($34,200) in a budget of 800,000 francs ($152,000). A sum of 250,000 francs ($47,500) would be necessary to cover the losses.

After confessing his delusions and deceptions before a meeting of the municipal council M. Mouchel committed suicide in the cellar of the town hall.

The serenity of the Socialist journals was scarcely rippled by such an occurrence. *L'Humanité* remarked: "It will be found that the municipal operation of gas will not have cost a sou more nor less than private operation." Even if that statement were true it would have been bad business.

But the partisans of government and municipal ownership are incorrigible. "What if there are losses," they say; "the citizens have been gainers." Not as taxpayers, that is certain.

As for the United States the disorder and waste of its municipal administrations are notorious, and development of public operation has certainly not lessened them.

In Milwaukee, a city inhabited almost exclusively by Germans, municipal Socialism has been a very costly proposition. Before the city had experimented with a single municipal undertaking the annual normal increase of the budget was $250,000. Beginning with 1909 it has increased $1,000,000 in two years. At the April elections, 1912, the Socialist ticket was defeated by a majority of 13,000 and Mayor Seidel prosecuted.

A new *Bureau of Efficiency and Economy,* costing $20,000 a year, has been organized, but it has thus far failed to make any report.[1]

[1] *Journal of Commerce,* New York, December 22, 1911.

CHAPTER XVII

CHARGES, DEBTS AND CREDIT

The Profits of British Financial Enterprises for the Period 1893-1898.—1898-1902.—Report for 1907; 1902-1906.—An Annual Profit of 6*s* 3*d* ($1.50) per 100 Pounds.—Financial Situation on March 31, 1911, of 2,500 Local Governments.—Substituting Monopolies for Taxation.—Relation Between Local Taxation and Appropriations, 10*s* 7*d* ($2.54) per 100 Pounds.—Increase of Local Taxes.—Increase of Loans.—Decline of Credit.—Complaint of a Citizen of Birmingham.—Profit on Undertakings and the Cost of Loans.—Conclusions of Major Darwin.—Credit of German Local Governments.

Let us now take up the question of charges, debts, and credit, in relation to British local enterprises.

The first parliamentary report on municipal undertakings, which appears under the title of *Municipal Corporations' Reproductive Undertakings,* dates from 1899. It includes accounts of 265 towns of England and Wales for a period of five years, ending March, 1898. The financial results indicated are shown in the following table:

	Pounds Sterling
Capital invested.....	88,152,000
Annual net profit; depreciation deducted...	370,000

The second document dates from 1903. It is more comprehensive. *The Municipal Year Book* of 1912

reproduces it in its entirety. It gives the results of the undertakings of 299 municipalities out of 317—not including London—for a period of four years, or from 1898 to 1902.

	Pounds Sterling
Capital invested	121,172,000
Net annual profit; depreciation deducted	378,000

An apparent profit of .312 per cent. is thus indicated.

In 1907 the Local Government Board published a supplementary statement, showing the results obtained by 192 municipalities out of 324 in England and Wales during the year 1904-1905.

	Pounds Sterling
Profits in aid of taxes	898,742
Deficits covered by taxes	242,472

Municipal Trading Returns (No. 171, 1909) gives statistics only regarding the work of the London County Council, the City Corporation, the London boroughs, and 43 municipalities in England and Scotland for the four years from 1902-1906.

Mr. J. H. Schooling, the celebrated statistician, has demonstrated that all the municipal enterprises taken together show, for the period 1898-1902, an annual profit of 6*s* 3*d* ($1.50) per 100 pounds sterling of capital invested. He adds, however, that, if the depreciation of roadbeds, equipment, etc., of the various undertakings was taken care of as it would be in private business normally managed, the annual loss would be 5,500,000 pounds sterling ($26,785,000), or, in other words, £4 10*s* 7*d* ($22) on every 100 pounds.

Among the sources of profits are reckoned the sums collected from private businesses. These sums are very large in the case of some municipalities, but they cannot legitimately be called profits from municipal enterprises.[1]

The Local Government Board has published a statement of the receipts, expenses, and local loans in England and Wales for the year 1910-1911. The number of local authorities included in this work is 2,500, representing about one-tenth of the local governments mentioned in the local taxation returns for the same districts. The financial situation, on March 31, 1911, of these 2,500 local governments was:

	Pounds Sterling
Receipts from all sources except loans....	122,953,000
Expenses, except capital expenses.....	122,082,000
Receipts from loans.....	16,137,000
Capital expenses	15,300,000
Total debt at the end of the year.....	410,695,000
Sum to the credit of sinking funds and the like	21,198,500

The debt of these 2,500 local governments reached, then, the enormous figure of £410,695,000 ($2,000,094,000). The expenses are more than £137,382,000 ($668,850,000). Of the £122,953,000 ($598,780,000) of receipts, local taxation accounts for £64,004,000 ($311,699,500) and grants from the exchequer (including the local share of license fees) for £21,073,000

[1] *Fortnightly Review*, August, 1906: Lord Avebury, *On Municipal and National Trading*, page 68.

($102,625,510), giving a total of £85,077,000 ($414,325,000).

The apologists for municipal enterprises give the impression that such undertakings may be substituted for taxes, with no apparent perception of the fact that, if municipal enterprises were to replace taxation, by reason of their innately fiscal character they would come to weigh heavily on the consumers. The conception of substituting municipal enterprises for a treasury is, therefore, only a delusion.

Local government undertakings have, in some instances, yielded profits which have relieved local taxation. But in others they have created deficits which are met only with the help of taxes.

In 1910-1911 the total amount contributed in aid of taxes on gas, electricity, ports, docks, jetties, canals, quays, tramways, light railways, and waterworks undertakings was £1,320,000 ($6,428,400), of which £1,203,000 ($5,858,600) came from town councils.

The total amount of tax funds paid out to provide for deficits on the same undertakings was £971,000 ($4,728,800), of which £631,000 ($3,073,000) was provided by town councils.

	Pounds Sterling
Surplus	1,320,000
Deficit	971,000
	349,000

Thus, the reduction of local taxation effected by profits from local enterprises amounted to £349,000 ($1,700,000), or, as against the £64,000,000 ($311,680,000) of local taxes and the £23,000,000 ($112,-

000,000) furnished by the exchequer to 0.41 per cent., or less than one-half of 1 per cent. These figures are a sufficient answer to those partisans of government ownership who are continually reiterating that expense may be incurred with impunity because government monopolies will pay for them. And, moreover, receipts from ports, jetties, quays, and canals, which are not industrial operations properly so-called, are included in these figures.

Moreover to the loans previously noted as granted to local governments, £23,210,000 ($113,033,000) should be added for the Port of London; £25,720,000 ($125,256,400) for the Mersey Docks and Harbor Board; £49,529,000 ($241,236,000) for the Metropolitan Water Board; more than £14,692,000 ($71,550,000) for ports, docks, quays, etc., or a total of £129,288,000 ($625,795,000). The taxable value of all this property was £217,180,000 ($1,057,667,000), from which must be deducted, however, £1,737,000 ($8,459,000) representing government property, which, in lieu of taxes, pays an equivalent sum under the name of "contributions."

The following figures show the total local tax during the three years 1908-1911:

Year	Per Pound of Assessable Value		Per Inhabitant		
	s	*d*	£	*s*	*d*
1910-1911	6	4	1	15	9
1909-1910	6	2½	1	13	1
1908-1909	6	1¼	1	14	6

The pound sterling is 20 shillings. The tax of 1910-1911 represents then more than 30 per cent. of the assessed value of the taxable property just listed.

Municipal enterprises, far from having relieved the taxpayers, have not prevented local taxes from soaring higher in 1910-1911 than they had ever done before.

Municipal enterprises make loans necessary, and the increase of loans involves loss of credit.

	Since Dec. 1902 The Highest Quotations	Quotation for July 30, 1912 Lowest	Highest
Metropolitan Cons. stock 3½%	109	99½	100½
Metropolitan Cons. stock 3%..	102	87	88
Metropolitan Cons. stock 2½%	91¼	68½	69½
Belfast 3% (1953-8).....	94½	75	...
Birmingham 2¾%.....	88⅛	75	77
Brighton 3% (1933-53).....	92	81	83
Glasgow 3½%	116½	99¾	...
Glasgow gas annuities	295½	236½	...
Huddersfield 3½% (1934)	106½	95	96
Hull 3½%	110½	94	96
Leeds	163	134	136
Leicester 3½%	108	93	95
Liverpool 3½%	121¼	98½	99½
Manchester 4%	132	111	113
Newcastle-on-Tyne 3½%	107¾	94	96
Plymouth 3%	97	84	86
Nottingham 3%	100	36	88
Portsmouth 3½%	105½	96	98
Reading 3½%	112½	94	96
Sheffield 2½%	82	69	71
Southampton 3½%	101¼	92	94
Swansea 3½%	111¾	93	95

The *Birmingham Daily Mail*, of May 24, 1911, published the letter of a correspondent, who says:

"The town made last year a profit of £132,174 ($643,687), from which must be deducted a loss of £57,091

($278,033). The citizens of Birmingham have loaned to the city £12,500,000 ($60,875,000), on which they lose all their taxes and receive in turn about £60,000 ($292,200), or less than 0.45 per cent., whereas if they (the municipal undertakings) were paying 5 per cent. they would yield £650,000 ($3,165,500)."

Hilaire Belloc, during a debate at Memorial Hall, in London, with Ramsay McDonald, the president of the Labor Party in Parliament, said:

"Municipal enterprises have been established by means of loans contracted with capitalists to whom the various local governments offered returns which these undertakings either did or did not furnish. The result has been that municipal undertakings have been bringing in about 1.8 per cent., while 3.2 per cent. interest was being paid out. The debt has been increasing. There has been more and more need of capitalists who have refused to consent to new loans seeing that the debts were growing in an alarming manner." (*Labor Leader,* May 12, 1911.)

Major Darwin, in his objective study of municipal industries, reaches the following conclusion:

"Municipalities can manage markets, public baths, slaughter houses, cemeteries, and waterworks. Municipalities may own tramways. But all these enterprises ought to be operated privately. Gas, electricity, tramways, the telephone, ought to remain in the hands of private individuals."

He further suggests that municipalities be forbidden to manufacture electrical apparatus; to own houses; to

engage in construction without contractors. Municipalities should be forbidden to attempt to make money, and their borrowing power ought to be restricted.[1]

In the United States the debt limit for municipalities is: 10 per cent. of the taxable value in New York, 5 per cent. in many of the western states, and 2 per cent. in others.

This year (1913) the German cities are being much hampered for lack of credit. A loan sought by the city of Carlsruhe has had to be indefinitely postponed The smaller and medium sized municipalities, in the absence of funds, have been obliged to postpone necessary work.

[1] Constitutional Amendments to be added to the Declaration of Rights.

CHAPTER XVIII

FICTITIOUS PROFITS

Railway Charges.—Local Taxes on Prussian and English Railways.—The Victorian State Coal Mine and the Government Railways.—New Zealand.—Profits of the National Printing Office.—The Insurance Monopoly.

Private enterprises are subject to certain charges from which state undertakings are exempt. These exemptions create an illusion of profit. Local taxes paid by the government railroads in Prussia amount to £750,000 ($3,652,500), while similar taxes, paid by the railways of the United Kingdom, having nearly the same length of line, reach £5,000,000 ($24,350,000). If both were taxed at the same rate the profit on the government railroads in Prussia would be proportionally reduced.[1]

Further, the profits of one state undertaking are frequently obtained only at the expense of another. For example, the Victorian state coal mine, in Australia, is called a success; but the director of railroads, Mr. Fitzpatrick, complains of losing 45,000,000 francs ($8,550,000) through being forced to use government coal.[2]

At the end of 1912 it was announced that the New

[1] Edwin A. Pratt, *Railways and Nationalisation*, page 3.
[2] For New Zealand see Book 2, Chapter VII.

South Wales government was prepared to nationalize the iron industry, but with the proviso that the Federal government must stand ready to order the material for the new railroads from its mills. "Peter is being robbed to pay Paul. But such are the methods of presenting the accounts that the public does not perceive this fact," says *Liberty and Progress,* Melbourne, May 25, 1911.

The National Printing Office of France undertakes to do outside work for editors; at the same time it has a monopoly of the government printing. It farms out its work to private printers, and it adds a charge of its own to the original cost when the work is delivered to the departments, which have no choice but to have their printing done by government printers. In this connection the inspector of the finances, M. Bizot, has pointed out the following facts:

"The National Printing Office furnishes the forms for telegrams. It has contracted with a private company to manufacture and deliver these forms to the aforesaid printing office, cut, folded, perforated, gummed, and turned at a cost of 67 centimes per 1,000 forms in pads of 100, and 50 centimes per 1,000 forms when delivered as loose sheets. Up to 1911 the National Printing Office invoiced these supplies to the postoffice at a cost of 2 fr. and 1 fr. 62, respectively, instead of 67 and 50 centimes. In 1910 this addition of more than 200 per cent. represented a profit to the National Printing Office of 82,000 francs."

And who was paying this profit to the National Printing Office? Why, the Postoffice department, or,

in other words, the government, by submitting to an overcharge of 82,000 francs.

The law of April 4, 1912, has ordered that the insurance monopoly in Italy shall be exempt from postal charges, and that its profits shall not be subject to the income tax.

These exemptions will be accounted on the credit side of the insurance monopoly. They ought to be deducted from the government resources.

CHAPTER XIX

FISCAL MONOPOLIES

1. Tobacco Monopoly in France.—Treasury Profits.—Losses to Agriculture, Industry and Commerce.—Use of National *vs.* Maryland Tobacco.—Opposition of the Consumer.—The Advantage.—Delusions Regarding Regulation.
2. The Match Monopoly in France.—No Amortization.—Bookkeeping Artifices.
3. Fiscal Profits.

1. It is customary to speak of the results of the tobacco monopoly in France, in force since 1811, as marvelous.

The income appears truly enormous. In 1815 it was 32,123,000 francs; in 1830, 46,782,000 francs; in 1850, 88,915,000 francs; in 1869, 197,210,000 francs; in 1890, 305,918,000 francs; in 1900, 338,872,000 francs; in 1910, 407,330,000 francs.

Without doubt this is a dazzling result from the fiscal point of view, and it also proves that the number of Frenchmen who use tobacco has increased more rapidly than the population.

But there are other ways for a government to make money out of tobacco than by monopolizing the sale of it. In 1908-1909 the United Kingdom realized £13,328,000 upon tobacco, that is to say, 333,450,000 francs, or only 74,000,000 francs ($14,060,000) less than our monopoly has yielded us.

We see what this monopoly has contributed to the Treasury; but we do not see the losses occasioned by it to French agriculture and industry. It is a privilege to be allowed to cultivate tobacco. I have heard a deputy say: "I will guarantee that not a single one of my political adversaries will cultivate one acre of tobacco." Possibly he was boasting; but that a deputy could use such language is sufficient to prove just how far official authority is capable of being abused.

In any case there are only 27 districts permitted to cultivate tobacco, and these districts are situated in all parts of France, from the North to Landes, from Ile-et-Vilaine to the Var. Therefore, climatic reasons have not determined these concessions, which, as a matter of fact, are wholly dependent upon politics. The number of hectares authorized was 17,955 (44,880 acres) in 1909, and 18,005 hectares (45,000 acres) in 1910. In the first year mentioned 15,037 hectares (37,593 acres) out of a possible 17,955 hectares (44,880 acres), and in the second year, 14,683 hectares (36,708 acres) out of a possible 18,005 hectares (45,000 acres) were cultivated. The number of licenses was, respectively, 48,395 and 47,283.

The quantity of tobacco bought was 23,134,000 kg. (50,894,800 lbs.) in 1909, averaging 23,122,000 francs, and, in 1910, 21,034,000 kg. (46,274,800 lbs.), averaging 22,085,000 francs.

	Fr.	C.
Value of domestic tobacco estimated at	23,226,874	33
Foreign tobacco at	31,825,437	95
Algerian tobacco at	2,038,054	85
Confiscated tobacco taken from dealers	144,772	15
	57,235,139	28

But let us look at the monopoly from a somewhat different standpoint. To-day we may buy scaferlati. Scaferlati is a raw product. Consequently you may imagine that you have the right to use it to manufacture cigarettes. In fact the Court of Cassation [1] has made a ruling to that effect. Nothing of the kind. The department of Indirect Taxes (Administration des Contributions Indirectes) intervenes, and says to you: "You, a simple individual, cannot manufacture cigarettes, because I have reserved for myself a monopoly of this article."

The rival claims of the various parties interested in the sale of tobacco became the subject of a lively discussion between the tobacco monopoly and the Court of Cassation. The Finance Law of 1895 finally put an end to the altercation by justifying the exorbitant pretensions of the monopoly. It decided that, although you can make cigarettes for your own personal use with the tobacco that you buy from the government, you have not the right to sell these cigarettes to your neighbor.

On September 17 and 18, 1903, there was another altogether edifying discussion—this time in the Senate —upon the manner in which the state treats the consumer. Certain senators were anxious to prevent the French smoker from smoking anything but the national tobacco. The Minister of Finance, M. Rouvier, opposed this restriction, but at the same time he proceeded to demonstrate how cavalierly the state may treat the consumer who has no other source of appeal:

In 1900, he declared, ordinary scaferlati had

[1] The highest judicial court of France.

been composed of 52 per cent. native tobacco and 48 per cent. foreign tobacco. In 1901 the proportion was changed to 54 per cent. native tobacco and 46 per cent. foreign tobacco. The consumption decreased 40,000 kg. (88,000 lbs.).

What would a private company have done under similar circumstances? It would have restored the former proportion, as a matter of course.

What did the government do? It increased the proportion of native tobacco.

In 1902 scaferlati was composed of 63 per cent. native tobacco and 37 per cent. foreign tobacco.

"The number of complaints increased," added the minister placidly.

But what did the minister do about it? Was any attempt made to satisfy the consumer? Did the department restore the previous proportions? Not at all. The consumer was induced to see the error of his complaints in another way. Smokers had gradually abandoned the degenerate scaferlati for Maryland tobacco. Therefore, the government conceived the happy idea of increasing the price of Maryland tobacco. That would teach the smoker to be content with the government tobacco. Strange that MM. Gomot and Ournac should discover that this proportion of native tobacco was still unsatisfactory!

The example quoted above only serves to prove once more the truth of the following general law:

Under conditions of free competition the producer has more need of the consumer than the consumer of the producer, and it is necessary that the latter give

the former the maximum of service at a minimum cost. Under monopolistic conditions the consumer is obliged to submit to the exigencies of the producer.

If the consumer wishes to retaliate he has no other recourse than that species of strike called abstention, which for him spells privation. As the case of the Maryland tobacco proves, the smoker cannot even resort to substituting one product for another. If he makes the attempt he is penalized.

Beginning with May 14, 1910, M. Cochery raised the rates on high-grade tobacco and certain tobaccos especially popular at the time. As a result of this measure an increase in the annual receipts of 18,000,000 francs was anticipated, and for 1910, 13,500,000 francs. The increase was but 10,044,000 francs, or only 998,000 francs more than the average increase for the previous four years. The detailed report of the sales shows that the public had abandoned the use of the high-grade tobaccos, and was contenting itself with scaferlati, the price of which remained the same. Probably it was not without discreet murmurs that the public resigned itself to this change of habit; but at least the passive and silent strife had some effect. The decree of June 26, 1911, reëstablished the former rates on brands the abandonment of which would make serious inroads upon the profits of the monopoly—that is to say, the more expensive scaferlati and the more popular cigarettes made from it.

But now let us suppose that this monopoly on tobacco in France did not exist. We French are ex-

tremely skilful in raising products of a refined savor, and we know how to prepare them in the most attractive manner. Let us imagine, then, that the cultivation and sale of tobacco were free. There would be tens of thousands of hectares under cultivation in those districts where the soil is best adapted for it. We would see manufacturers experimenting with skilful blends of native and foreign tobaccos suitable for exportation. We would see in the great cities large and imposing shops for the sale of tobacco like those seen abroad.

The department boasts of the excellence of its products. The foreigner does not share this opinion, because exportation is almost nil—3,547,000 francs ($673,930) in 1910. Yet attempts are made to export the home product, because included in the above figure is the sum of 83,718 francs ($15,906) for commissions paid to special export agents.

If the monopoly contributes 405,000,000 francs ($76,950,000) to the government on the one hand, it is certainly causing a loss of many hundreds of millions annually to French agriculture, industry and commerce on the other hand.

Moreover, but little regard is paid to the net cost of manufacture and sale. As a monopoly the state has, of course, a wide margin.

The books of the monopoly carry a kind of industrial account, entitled *Capital de la Régie.* On December 31, 1910, the amount was figured at 153,841,482 francs 07 ($29,229,881). Nothing more definite was given. The sum was distributed thus:

	Fr.	C.
Tobaccos	99,599,224	07
Buildings	42,146,962	..
Machines	6,219,730	..
Utensils, supplies, furnishings	5,875,566	..
Total	153,841,482	07

This table is supplemented by the following:

Relation of the Department to the Treasury.

On December 31, 1910, the department owed the Treasury:

	Fr.	C.
Capital estimated at	153,841,482	07
Balance to be collected on sales	96,984	44
Total	153,938,466	51
But the department had still to pay on account of expenditures	6,504,885	75
Finally it was indebted to the Treasury in the amount of	147,433,580	76

But what can the Treasury do with 42,000,000 francs in buildings and 6,000,000 francs in machinery, etc.? Surely there is no indication here of an industrial budget.

The tobacco monopoly bought nearly 32,000,000 francs ($6,080,000) of tobacco abroad in 1910. Tobacco experts visit the places of production, meet at Bremen, and buy tobacco. They are prepared for the business by the Polytechnic Institute. It is the easier for me to say what I am about to say since the probity of these agents has never been brought into question. But what control can be exercised by any legislative body over the millions of francs' worth of tobacco which thus passes from one hand to another?

What possible chance is there of fixing individual responsibility?

In fact it cannot be too strongly asserted that *legislators have yet to discover how to interfere effectively in trading operations carried on by the state.*

2. The accounts devoted to the materials and money sunk in the operation of the chemical match monopoly for 1910 give us at least a certain amount of information. For example, the amount of capital controlled by the department on December 31, 1910, is figured at 10,633,635 francs 92, and is distributed as follows:

	Fr.	C.
10,697,036,288 finished matches.....	2,347,805	40
18,883,104,633 unfinished matches.....	672,631	53
Other materials and products.....	234,266	99
Land and buildings.....	4,150,301	..
Machines, apparatus and other equipment	2,531,184	..
Miscellaneous supplies	727,447	..
Total	10,663,635	92
Compared with the corresponding figures for Dec. 31, 1909, the above figures represent an increase in capital of	525,111	05
Distributed thus:		
Finished matches	353,708	07
Unfinished matches	20,945	64
Machines, apparatus, etc.....	301,487	..
Supplies and miscellaneous materials	112,458	34
	788,599	05
Reductions		
Buildings and lands	263,488	..
Net increase	525,111	05

Profits

The receipts for one year amount to..	42,435,220	26
The expenses appearing in the budget amount to	12,333,827	50
The difference between the receipts and the expenditures is.....	30,101,392	76
If we add to this difference the increase upon the capital of the department, which has been figured above at....	525,111	05
We have the profit for the year 1910, which is	30,626,503	81
The profit for the year 1909 having been	29,832,443	95
We have an increase of.....	794,059	86

Relation of the Department to the Treasury.

On December 31, 1910, the department owed the Treasury:

		Fr.	C.
Capital estimated at.....		10,633,635	92
Balance to be collected on sales for 1910	1,369,770 14		
For 1908	73,794 ..	1,443,564	14
Total[1]		12,107,200	09
But the department has still to pay on expenses of the year 1910.....		1,583,592	22
Its final debt to the Treasury is.....		10,525,607	84

Many other details are found in the pages which follow, but there is no trace anywhere of what the English call "depreciation," that is to say, amortization, on either real estate or equipment.

The monopoly buys matches abroad for 3,206,326 francs 04, upon which it pays 671,608 francs 07 cus-

[1] These figures, which do not agree, are copied from the official report.

toms duties, together with 3,008 francs 64 in the way of incidental expenses, forming a total of 3,880,942 francs 75.

The Minister of Finance collects theoretically 671,608 francs 07 from the customhouse upon this monopoly, and at least an equivalent sum as profit on the sale of the domestic product. Therefore, his accounts are just that much short at the end of the year. Here we have a bookkeeping artifice so much the more astonishing in that foreign matches are prohibited and cannot be brought into the country except by the government.

3. In the case of both tobacco and matches the term *profit* is applied to the difference existing between receipts and expenditures. But, from the standpoint of the consumer, this *profit* is neither more nor less than a reward of extortion, since consumers are unable to procure at the lowest price the goods which the monopoly forces upon them. The word *profit* is, therefore, altogether a misnomer.

In 1891 a committee of the Chamber of Deputies suggested to the various ministers that government employees be allowed to share in the profits of state operation.

At that time I had under my direction, as an industrial undertaking, the old government railway system. I answered that there were no profits and that consequently they could not be divided. But would it even have been possible to give to the employees and laborers connected with the prosperous tobacco and match industries a share in the "profits resulting from the

sale of their products"? There are no real profits; there are fiscal advantages wrung from consumers.

Many of those who demand "industrial accounts" do it with the hidden hope that the departments of tobacco and matches are going to become the property of the employees concerned in their operation, who will thereupon enter into contracts with the government and thereby ensure for themselves "a share of the profits." But such *profits* are, as has been already said, only the result of extortion, and, therefore, would inevitably disappear if unsupported by the laws at present in force.

A fiscal profit should never be mistaken for an industrial profit.

CHAPTER XX

THE ALCOHOL MONOPOLY IN SWITZERLAND AND RUSSIA

1. Monopolistic Fictions of Emile Alglave.—Monopoly Rejected in Germany.—No Monopoly in Austria.—An Experiment in Italy.
2. In Switzerland, the Object of the Monopoly the Abolition of *Ohmgeld* Duties.—Neither the Distillation of Wines nor Stone and Kernel Fruits Affected by the Monopoly.—Ten per Cent. of the Receipts to Combat Alcoholism.—A Surprise Vote.—Numa Droz.—The Electoral Premium on Potatoes.—Restrictions on Sale in Switzerland.—Fiscal Deception.
3. Russia.—*Moujik* Forbidden to Drink on Premises.—Characteristics of the Liquor Traffic.—Increase of Public Drunkenness.—Declaration of a Moral Purpose.—Fiscal Success.

1. About thirty years ago Émile Alglave was anxious to establish a monopoly on alcohol in France.

Basing his appeal on authority he said, with magnificent assurance, that France would be the last country in Europe to adopt such a monopoly, and he reproached her with a lack of progressive spirit. He cited the example of Germany, where, as a matter of fact, a monopolistic project was submitted to the Reichstag on February 22, 1886. But despite the intervention of Bismarck, who pointed out the financial

necessities of the empire and the need for reforming municipal taxation, the bill was rejected on the 27th of March, following, by a vote of 181 to 3.

The great distillers supported the project because the government promised to buy their alcohol at 40 marks, or 10 marks more than it was worth at the time—a proceeding which would have involved an outright gift to them of 35,000,000 marks. But, although these particular manufacturers might contemplate with satisfaction the immediate profit, the question naturally arose as to what would happen if, later, under various kinds of pressure, the government, instead of having at its head a man like Bismarck, himself a prominent distiller, should have statesmen anxious not to arouse any suspicion of favoring these special interests, and who, moreover, might be in need of revenues to balance the budget. It was the general opinion that such a monopoly would increase the power of the government, and convert the retailers into electoral agents. The questions of rectification and exportation were also debated. Since that hour the question of an alcohol monopoly has been dead so far as the Reichstag is concerned.

Before the alcohol monopoly investigating committee of the French government, in 1887, M. Alglave expressly declared that Austria had adopted the policy of monopolizing alcohol. He even gave circumstantial details, such as that the price of a single glass was fixed at 0 franc 04; that the commission allowed the tavern keeper was 10 per cent., etc. He further declared that in Austria the measure was not

a fiscal one, since the budget had a surplus of from 7 to 8 per cent., but purely hygienic. As a matter of fact the sole support for these statements existed in the fertile imagination of M. Alglave himself. There is no alcohol monopoly in Austria.

Finally M. Alglave attempted to invoke the example of Italy. In 1894, or seven years later than the sitting of the committee above referred to, the Italian government had considered the question, but any really serious discussion of the proposition was defeated by the outcry which arose.

Consequently M. Alglave's argument from example proved to be worth no more than all the others.

Belgium reformed its legislation regarding alcohol in 1896, but the monopoly proposed by the Socialist group was rejected without debate. The Belgian government increased the duties upon alcohol and prohibited the sale of absinthe, but the question of monopoly has played no other rôle.

2. Alcohol monopoly is actually found in only two countries, viz., Switzerland and Russia. Louis Marin, who, in 1902, as deputy from Var, took up the project of M. Alglave and presented it to the Chamber of Deputies, said: "You all know that the monopoly of alcohol in Switzerland and Russia is managed according to the ideas of M. Alglave." I did not know it. But, if either conforms to the ideas of M. Alglave, they at least differ from each other.

The establishment of the Swiss monopoly had for its principal object the abolition of the *ohmgeld* duties.

These were inter-cantonal entrance duties, a species of internal revenue tax at different rates, upon wine, cider, beer and alcohol. Established in 16 cantons out of 22 they had proved a serious hindrance to freedom of trade and commerce in the Swiss Confederation. The constitution of 1848 had prohibited any further increase of them, and, in the negotiations over the commercial treaty with France in 1864, they had given rise to grave difficulties. The Federal constitution of 1874 had ordered their abolition after January 1, 1890.

Article 31 of the constitution guarantees "liberty of industry and commerce throughout the length and breadth of the Confederation." Article 32 enumerates exceptions to the above in the case of "salt, gunpowder, entrance duties on wines and other beverages"; while the amendment of 1885 adds to this list "the manufacture and sale of distilled beverages." Article 32 and following gives to the Confederation "the right of establishing, by legislative act, regulations governing the manufacture and sale of distilled beverages"; which declaration, however, is seriously affected by a qualifying clause, the text of which I reproduce:

"The distillation of wine, of stone and kernel fruits and their waste, the roots of the gentian, juniper berries, and other similar materials, is excepted from Federal regulations governing manufacture and taxation."

This clause was a triumph for the individual distillers of every description—makers of kirsch, bitters, gin and distillers of wine. The restrictions apply only

to alcohol derived from amylaceous sources. The second paragraph of the above-mentioned article 32 adds that "trade in non-distilled alcoholic beverages shall not be subjected to any special tax by the cantons." The third paragraph of the article declares that "the net income of the Confederation resulting from native distillation and the corresponding increase of entrance duties upon foreign distilled beverages shall be divided among the cantons in proportion to their population as established by the most recent Federal census."

The article concludes with the following direction: "The cantons are expected to employ at least 10 per cent. of the receipts in combating both the causes and the effects of alcoholism." Very little attention has ever been paid to this wholesome bit of advice.

It is to be easily gathered that the object of the amendment of October 25, 1885, was to assure free circulation of beverages throughout the Confederation by suppressing cantonal entrance duties. It is a law of liberty.

On the other hand, the mere granting to the Confederation of "the right to establish, by legislative act, regulations governing the manufacture and sale of distilled beverages," certainly does not imply monopoly. Numa Droz, then minister of agriculture, was opposed to monopoly, but favored the suppression of the *ohmgeld* duties. If the amendments to the Federal constitution, submitted to referendum October 25, 1885, did not absolutely forbid the monopoly of alcohol they were certainly not intended to pave the way for it. On the contrary, they provided for a system of excise duties by which the suppression of the *ohmgeld*

duties would be more effectually accomplished than by a monopoly.

"In the course of the discussion in the chamber I do not believe that the word monopoly was pronounced a single time," said Numa Droz in speaking of the surprise produced when the Department of the Interior presented to the Federal council three bills, two of which proposed a monopoly. Upon his recommendation, and by a vote of 4 against 3, the Federal council adopted the first bill presented, which provided for excise duties. The committee of the National Council, however, espoused the bill creating a monopoly. The majority of the Council thereupon capitulated, on condition that the Confederation would not itself distill alcohol, and the law was actually passed December 23, 1886, and approved May 15, 1887, by a referendum vote of 267,000 votes against 138,500.

As the Swiss were the first nation to put into practice free institutions they have shown themselves extremely distrustful of this measure. In fact they have been so anxious to limit their losses that they have decreed that three-fourths of the alcohol controlled by the monopoly shall be put on the foreign market, and only one-fourth sold at home. Nor shall this latter amount exceed 20,000 hectoliters or 25,700 hundredweight a year.[1]

It was expected that the monopoly would yield a net profit of 8,840,000 francs, which sum was to be so divided among the cantons that each should receive

[1] See Numa Droz, *Études Économiques.*

an amount proportioned to the quantity of alcohol distilled within its borders.

The following table gives the result for the first five years:

	Fr.
1887-1888	5,422,316
1889	4,547,108
1890	6,306,668
1891	6,013,335
1892	5,778,668

Since 1896 the net profit has been distributed among all the cantons in proportion to their population. The following figures represent the amounts distributed from 1906 to 1910:

	Fr.
1906	6,317,544
1907	6,483,795
1908	5,985,041
1909	5,818,790
1910	6,317,543

Thus we see that the monopoly has never reached the figure anticipated. During the last five years it has been 30 per cent. less than what was expected twenty-five years earlier.

As far as Switzerland is concerned this is not a disaster. But if the experiment were to be attempted in France, and its provisions based upon the dreams of Émile Alglave, who prophesied 1,500,000,000 francs revenue from it, or even upon those of M. Guillemet, who prophesied 700,000,000 or 800,000,000 francs, a certain deficit of hundreds of millions must inevitably have been the result.

In France M. Alglave has frequently declared that the Swiss monopoly was established first and foremost for hygienic reasons, and not for fiscal gain. That

this is a complete error I have just shown, since the Swiss monopoly was established for the purpose of suppressing the *ohmgeld* duties.

It is true that at first, under the pressure of hygienists, the administration furnished absolutely pure alcohol. The Swiss, however, accustomed to drinking *schnapps,* which provokes a strong irritation of the throat, demanded that the alcohol provided by the monopoly should give them the same sensation. The department was forced to add an impure grade to the rectified alcohol in order to give the taste of *fusel,* without which the monopoly must have gone completely bankrupt.

To-day the Swiss are content with such rectification as the industry which sells the alcohol sees fit to make.

3. According to Peter the Great, "Russia's one joy is to drink." However, the people consume little enough of the more common forms of alcohol; 2,000,000 to 4,000,000 hectoliters (53,000,000 to 106,000,000 gallons) of wine, 4,000,000 hectoliters of beer, for a population of more than 130,000,000, or about three liters (3 quarts) per capita. When the Russian wishes to indulge in his "one joy" he drinks brandy.

An alcohol monopoly is not a novelty to him. It is an institution which dates from 1598. It has passed through various fortunes. Abolished in 1883, it was reëstablished January 1, 1895, in the four provinces of Perm, Orenburg, Samara and Oufa, having a joint population of 10,000,000 inhabitants. This

population is consuming 200,000 hectoliters (5,300,000 gallons) of alcohol, or two liters (2 quarts) per capita, less than half the consumption in France.

In Russia the people live under a paternal régime. The emperor is the "little father" of his subjects. He must provide for their welfare; he must watch over them and protect them from evil. The Russian peasant, the *moujik,* has one great fault. Ill nourished, he loves to drink; and, when he enters a tavern, he demands *vodka.* This is alcohol brought to 40 degrees by an addition of water. When he has no more money with which to buy, he sells his cart, his cattle, his furniture. He even sells his clothes, so that in winter he would be in danger of dying of cold in the streets if the police did not look after him.

The emperor of Russia says: "I do not object to my subjects drinking alcohol. If they did not drink it irreparable injury would ensue to the finances of my empire. Only I forbid the *moujik* to drink it in a tavern." Consequently the peasant is sold a little phial of 6, 12 or 60 centiliters, the cost of which is rigidly proportioned to the contents of the phial. There is no object, therefore, in buying large quantities at one time.

Such is the basis upon which the monopoly of alcohol in Russia is established. What have been the practical results? The alcohol shops are kept by officials who receive fixed salaries of 70, 80 and 100 francs, with a maximum of 150 francs per month. They have no interest whatever in developing trade. It is a very honorable position, about one-thirtieth of these agents being members of the nobility.

These alcohol shops have certain peculiar characteristics. They have neither corkscrew, glass, nor chair. The phial that they sell is sealed with a *vignette,* and it is absolutely prohibited to uncork it upon the premises. The customer enters, pays, and takes the phial away with him. The shop is in no sense a public house.

The *moujik,* once in possession of his bottle, goes out of the shop. Arriving in the street he finds a street vendor, who possesses what he has been unable to find in the shop, namely, a corkscrew and a glass. The vendor offers him the use of these, with a crust of bread and a piece of herring. While he uncorks the magic bottle the *moujik* eats the crust of bread and the bit of herring.

But as the poor fellow is afraid of being disturbed by the police, if he remains too long in the street, he gulps down the brandy and returns to get another bottle. The final result is this: Instead of drinking the liquor under shelter, and more or less slowly, in a public house, in front of a good stove, as was formerly the custom, the Russian peasant drinks in all haste, in the open air, in the street.

I have taken this information from official reports addressed to the emperor by temperance committees, which, strangely enough, are frequently headed by the collectors of indirect taxes (Directeurs des Contributions Indirectes) themselves.

All these reports declare that the present system has provoked an increase in public drunkenness. In one city (Ztatooust) alone, from the 1st of January to the 16th of August, 1895, there were 265 cases of public

drunkenness, compared with 155 during the preceding period—an increase of 58 per cent. Moreover, whereas the monopoly is directing its efforts toward the suppression of drinking upon the premises, all these temperance committees are united in the desire to reëstablish the former state of affairs under better conditions. For this reason the attempt has been made to open to drinkers so-called *traktirs,* establishments where cakes may be eaten while drinking warm beverages, but from which alcohol is proscribed. Alcohol is also excluded from breweries, therefore the *moujik* brings his phial with him and pours the contents into the beer. The efforts of the temperance committees have also been directed toward bettering this condition of affairs.

Serge de Witte once declared that the monopoly of alcohol in Russia had a moral, not a fiscal, aim. Today the moral excuse has been abandoned and the fiscal one openly proclaimed. The receipts from the monopoly play too important a rôle to be tampered with.

As I have already stated, from the fiscal point of view, the monopoly has been a success. In the preliminary budget for 1912-1913 it is estimated at 763,925,000 roubles ($393,421,000), in a total budget of 2,900,000,000 roubles ($1,493,500,000). It represents more than 26 per cent. of the total revenue. In Russia there are not as many alcoholic drinks as in France. The *vodka* of the monopoly may satisfy the *moujik,* but it would certainly never satisfy the majority of Frenchmen.[1]

[1] See Appendix "A."

CHAPTER XXI

FINANCIAL DISORDER

1. Parliamentary Control.—Jules Roche.
2. The National Printing Office.
3. The Administration of the Navy.—The Work at Guerigny.
4. Cost of Naval Construction.
5. Postal Service.—Telegraphs and Telephones.
6. The Telegraph in Great Britain.
7. British Postal Savings Banks.
8. Plans and Regulations of Budgets.
9. Dissimulated Loans.

1. Jules Roche, contemplating the consequences of the purchase of the Western Railway of France, remarked of the whole transaction:

"I am considering only one detail of the plan, namely, the creation of a special budget of the future system, with its special debt, its loans, and its special titles.

"Are we to have two public debts in France? A public debt pure and simple, such as already exists, secured by the general resources of the nation, and another debt, a new debt, contracted by the state railway, and consequently a state debt, secured by the same resources as the present debt, and secured besides, in a supplemental fashion, by the railroad system itself? If not, the term 'special loans' is without meaning.

"What sort of financial, legal or political idea is this? Is such a conception financial, legal or political at all? Is this bookkeeping? Here is surely something that the decree of 1862 did not foresee! And what would be the future of such a plan if it were ever adopted by the great state railways?

"We should shortly have postal loans, telegraph and telephone loans, match loans, tobacco loans, loans on coming monopolies, such as alcohol, sugar, insurance, and petroleum."

At present Socialists are abandoning the Marxian theory, as they dropped the theories of Fourier, Cabet, Louis Blanc, Prudhomme, etc. The more progressive are seeking new theories. They assume that, if private enterprise is suppressed, states and municipalities will produce all things necessary to man much more abundantly, and in a much more regular and economic fashion than private enterprise has succeeded in doing. They have made up their minds that all economic activity ought to be transformed into public services. This is their postulate.

But they have neglected to fortify their theories with facts. Universal experience has proved that, whatever a state does, it does at a higher cost than private individuals or groups, and that, far from concentrating its attention upon the true objective point, it always drags in foreign considerations, which ruin the enterprises of which it has assumed the direction. Accounts are confused in such a way as to make it next to impossible to discover either net cost or the true income. Although sheltered from competition, instead of being agents of progress, such undertakings foster

nothing but lethargy; and, while accomplishing so little themselves they block the way of the more productive enterprises of others.

Municipalities move along a straighter path, but the same defects are apparent in municipal trading operations that we find in state undertakings. Whence we may conclude that Municipal Socialism is only another condemnation of State Socialism.

Yet has Municipal Socialism, down to the present, at least, abated its energy in the establishment of public tramways, gas, electric lighting, telephones, water works and cheap housing? And, since it has failed in these enterprises, what would be the result of similar experiments with food supplies, dressing, heating and otherwise occupying and amusing the people?

The Chamber of Deputies approved article 70 of the Finance Law of 1912, which created a species of financial autonomy out of the manufactures of Sèvres porcelain in spite of the sound arguments against the measure presented by Jules Roche. The result of such a proceeding would have been a tenth special budget appended to the general budget. If the manufacture of Sèvres is a government enterprise its accounts should not be separated from the state budget; and, furthermore, why separate them from the general budget while the manufacture of Gobelin tapestry remains attached? The article has since disappeared from the Finance Law.

In our studies of the administration of French finances we have frequently had occasion to demonstrate the incapacity of the state to conduct a trading enterprise, despite the undoubted intelligence of its of-

ficials. Examples abound in the administration of the principal monopolies. We have shown that they manufacture bad matches at high cost, and that those which come from abroad to eke out our supply are better and cheaper. Officials in charge of these enterprises have neither initiative nor responsibility. They are hemmed in by regulations which do not allow of the coöperation characteristic of private industry. Responsibility for failure or success does not devolve upon these officials. It is distributed among a swarm of agents of the hierarchy, and vanishes finally in some central bureau. Any private business which had to struggle under similar conditions would end in bankruptcy. Nor is this state of affairs the fault of man. It is inherent in the very nature of the institution itself.

We find another opportunity of demonstrating the truth of the foregoing statement in a building enterprise, the history of which deserves to be preserved. Such utter lack of foresight and such an accumulation of mistakes are rarely found in one and the same business undertaking.

The enterprise referred to is the rebuilding of the National Printing Office. If any enterprise could have been conducted by government agents it would seem to have been this particular one; for it was confined to construction work based on rigid specifications. We have, it would seem, enough state architects to bring such a work to a successful conclusion. Yet the failure was complete, and the budget suffered grievously in consequence.

In the beginning the job was as follows:[1] To rebuild the National Printing Office upon a newly acquired site, and to sell the buildings and ground in the Rue Vieille-du-Temple previously occupied by the office. The officials in charge presented the following preliminary report to the Chamber of Deputies:

	Francs
Purchase of a tract of 20,000 meters, 9 Rue de la Convention, at Grenelle, at a cost of	1,002,350
Complete rebuilding and reëquipping of the printing office as in operation to-day; estimate verified by the committee in charge	2,960,000
Total	3,962,350
But this figure should be reduced by the amount to be realized from the sale of the property in Rue Vieille-du-Temple. This has been fixed at a minimum of	3,420,000
Sale of old materials	100,000
Total	3,520,000
Therefore, taking all these facts into consideration, the Treasury should only be called upon for a net expenditure of	442,350

Unfortunately the managers of the undertaking had forgotten to look at their problem from all sides, and Parliament made a great mistake in not perceiving this in time.

In the first place, it was an act of presumption on the part of the officials in charge to think of selling the old palace of the Rohans, then occupied by the National Printing Office. Naturally, protests arose from all sides against the sale of this landmark of the past, which kept alive the memory of the famous Cardinal,

[1] The report to the Chamber of Deputies by Emmanuel Brousse on Dec. 12, 1912.

and to which were attached so many other historical recollections. Its possession was a hypothetical and contingent asset, it is true, but the attempt to make it balance the expenditure ought never to have been seriously considered. This, however, is not the point of view from which the proceeding is most open to criticism. Where the mistake becomes inexcusable is in the estimate of the probable expense of rebuilding.

The committee declared to the Chamber, when presenting it with the estimate of its architects, that the rebuilding would cost in all, including ordinary miscalculations, a sum of 2,900,000 francs, and that, with this credit, all the work could be carried on upon a generous scale. But in order to reduce his original estimate, which had been 3,734,000 francs, to the figure just quoted, the architect, with the approval of the committee, had had to leave out one story in most of the wings, thus reducing the floor space in the shops by 7,000 square meters (7,708 square yards). Yet, despite this effort, in 1904 the committee had to report a deficiency of 1,500,000 francs in the preliminary estimate for the construction of the new building.

In the following year it was discovered that the estimate contained no provision for the installation of either heat, light, or motive power for the mechanical equipment. Consequently a new item of 750,000 francs had to be added to the previous amount. Then there had been no provision in any of the plans for housing the directorate and the subordinate functionaries. According to the documents submitted by the Budget Committee the expense of rebuilding the property on the Rue de la Convention must ultimately

amount to 6,210,000 francs. The Chamber had been told that it would only be 2,900,000 francs. The aggregate difference between estimate and expenditure amounted to 3,310,000 francs.

Finally to this difference of 3,310,000 francs should be added the loss that the budget will suffer by reason of the failure to sell the de Rohan palace. Later several more mistakes were discovered.

At the end of December, 1912, when the expenditure already incurred amounted to 10,445,000 francs, the committee made application for a further credit of 4,336,000 francs to finish the work.

It is understood that no one can be held directly accountable for this state of affairs. The responsibility rests with the committee in charge of the work, which managed the affair badly, and with the other committees, which helped to cover up official blunders. This example is typical of the arrant folly only too common in the conduct of state enterprises, and proves once more that a government is far less skillful than are individuals in the direction of such enterprises.

3. Each year the reports of the postoffice, telegraph and telephone systems, and even of the Navy, show the disorder to which all state operations are liable. Yet, although complaints of maladministration of these systems are incessant, do we not also know that Parliament continues to tolerate insubordination in the arsenals, increases in salaries, decreases in the number of hours of labor, and all those generosities which, instead of being an inspiration to production, amount to so many premiums on laziness? Investi-

gating committees are appointed. Of whom are they composed? Deputies from the ports are placed on Navy investigating boards when they should be disqualified by the very fact alone that the employees of the Navy will be counted among their constituents.

But let the following facts speak for themselves. A commission appointed to investigate conditions in the Navy met at Guerigny in 1908. It had as its president, M. Massé, deputy from La Nièvre, on whose motion a steel plant had been founded at Guerigny in 1900. The commission passed exactly one day in the town, after which exhaustive investigation of conditions there it submitted to the Navy department a report calling for new expenses.

The said steel plant of Guerigny, begun in 1900, has been in operation since 1905. Its prime object is the manufacture of Martin steel, and, according to the authors of the amendment which provided for its establishment, it should produce armor plate at a price considerably less than that paid to private companies. Now M. Rousseau [1] has discovered, and not without difficulty, in view of the complication of the accounts of the Navy, that the equipment for the manufacture of Martin steel must have already cost more than 5,000,000 francs, while the expense of the amortization of this outlay during ten years, according to the custom in the industry at large, is 500,000 francs.

Unfortunately, the investigating committee which visited Guerigny declared (in 1909) that immediately after the establishment of the steel plant the use of

[1] *Pour Sauver Quelques Millions.*

Martin steel plate had fallen off considerably. I quote from their report:

"As a matter of fact, the production is 300 tons of armor plate a year. Assuming that this rate could be maintained, the aggregate cost of amortizing the equipment would amount to 1,666 francs a ton. Moreover, it is to be feared that the use of Martin steel is continuing to decline. On the *Waldeck-Rousseau* there was 37½ per cent. of Martin steel; on the *Patrie* type there was only 24 per cent.; on the *Danton,* 17 per cent.; upon the *Jean Bart,* 14 per cent. (figures disclosed by the official reports).

"This fact is highly disturbing. The capital sunk in the equipment for the manufacture of Martin steel will, therefore, *never be recovered.* The department unquestionably made a mistake when, on the motion of M. Massé, approved by the Chamber of Deputies, it saddled itself with this equipment.

"But the commission feels that the plant at Guerigny ought to be provided with equipment and machines which will permit the manufacture of hardened steel, or any other kind of steel destined to supplant Martin steel.

"It will probably be necessary to abandon the use of hardened steel in its turn. But if the cementing furnaces were used during only two campaigns, it would be sufficient to pay off the expense involved in installing them."

The Commission, consistent to itself in its own inconsistency, then reiterates its demand for cementing furnaces, and says:

"Out of a total expenditure of 5,500,000 francs the cementing furnaces only represent a very small sum, since the plan provides for five at the cost of 70,000 francs apiece. *Moreover, it is not necessary to begin work*

with the installation of these furnaces. The construction of the new workshop will take approximately three years. A year is amply sufficient for the installation of cementing furnaces. Assuming that the work will be begun during the next year, or 1910, it will not be until two years after, or 1912, that the value of the new steel manufactured at Saint Chamond and at Creusot will be determined; it will then be known whether hardened steel will continue to be used in the Navy, and whether it will be practicable to provide for its manufacture at Guerigny."

Thus, and as a result of the report of the Commission, it appears that the government ought to be prepared to manufacture hardened steel at Guerigny, and also to await a definite decision as to the value of a certain steel, before commencing work on the furnaces.

The committee declares that it will take a year to install the cementing furnaces; yet the expenditures are already estimated at 5,500,000 francs.

Following the recommendations contained in the committee's report, the Navy department demanded 400,000 francs credit on the budget of 1911, and the Budget Committee was subsequently urged to raise this figure to 900,000 francs. But, even with this latter credit, six years would be required for the installation of the cementing furnaces. In asking for 400,000 francs, then, the Navy was demonstrating its skepticism, and, in granting such a sum, the Budget Committee was once more displaying its lack of foresight. In any case both were wasting funds in order to appear to be doing something, and not from the point of view of the needs of the Navy, but from local considerations.

Up to 1911 the general expenses at Guerigny were 118 per cent. of the estimated expenses.

The excuse for constructing the plant in the first instance was that such an establishment would "regulate prices." But, in order to regulate the price of private industry, the government ought to commence by regulating its own.

The Director of the Guerigny works told the Investigating Committee that:

"The saving of at least one franc per kilogram on the cost price of armor plate at Guerigny is also obtained in the manufacture of special steel, and this saving would certainly be continued if we should manufacture hardened steel. In this fact we have a serious argument in favor of the extension of the manufacture of armor plate. By doubling the expense incurred up to the present on account of this manufacture, we can more than triple the production; and each ton of armor plate made at Guerigny would represent an economy of 1,000 francs, taking into consideration the market price. Five thousand tons of armor plate would suffice to warrant the expense of such an enlargement."

Five million francs have already been expended at Guerigny. Now the management suggests a further expenditure of ten millions. The average annual production of 300 tons is to be increased—allowing a wide margin—to 1,000 tons a year, with amortization at 1 franc per kilogram; or, in other words, 1,000,000 francs a year, or 1,000 francs a ton. "How, upon 5,000 tons alone," demands M. Rousseau,[1] "can such an extraordinary feat be accomplished as to put aside

[1] See above.

1 franc per kilogram upon the cost of the industry, that is to say, 1,000 francs a ton, while at the same time the equipment is amortized at 2 francs per kilogram, especially when there is to be an expenditure of 10,000,000 francs?" [1]

The Investigating Committee declared the net cost per kilogram of armor plate produced at Guerigny to be 1 franc 27 to 1 franc 74, although the charge for amortization alone was 1 franc 66 per kilogram.

The report of this same committee inspired still more caustic comments on the part of M. Rousseau.[2]

"At the present time it is supererogation to state that the documents emanating from the French Parliament lack accuracy. It is an accepted fact, and is apparent above all in whatever pertains to the Navy. That the information contained in these documents is accepted without sufficient scrutiny has been proven again and again. It has been proven also that investigations are not made with all the care desirable. For example, we read in the report of the Committee appointed to investigate conditions in the Navy that 'the cost of turbines appears particularly exaggerated.' In the first place, what is this word 'appears' doing in the conclusions of an investigating committee? Why didn't the Committee get to the bottom of the matter? What basis of judgment did it have? The premises were as follows: we quote the report:

"'*Justice,* reciprocating engine, 18,500 h.p., 2,614,000 francs.

"'*Voltaire,* turbine, 22,500 h.p., 4,800,000 francs.

[1] L'Informateur Parlementaire.
[2] See above citation.

" 'At the same rate of cost as the engine on the *Justice*, a reciprocating engine of 22,500 h.p. would cost:

$$2{,}614{,}000 \times \frac{22{,}500}{18{,}500} = 3{,}267{,}500 \text{ francs}$$

" 'The turbines have thus cost, per man-of-war, 1,532,500 francs more than reciprocating engines, or about 10,000,000 francs for the six men-of-war. In reality, the turbines are less expensive to construct than reciprocating engines. As a result, there is a colossal profit for the contractors after deduction of all their expenses. It appears beyond doubt that the Navy has paid much too high a price for the turbines.'

"It is a universally admitted principle that like objects alone are comparable. It is well that it did not occur to the author of the little calculation quoted above to compare turbines with automobile motors, because, with the same serenity, he would have declared the contractors absolutely ruined, rendering the stock of their dock yards valueless, while, on the contrary, he has given them an enhanced value."

4. In any estimate of cost price there are two factors, direct expenses and general expenses.

In the navy yards general expenses are undivided expenses, uniformly computed at 28 per cent. of labor costs. In the case of the *Jean-Bart* they were computed at 24 per cent.[1] The proportion is a purely arbitrary one.

M. Klotz, then General Secretary (Rapporteur Général), has said in this connection:

[1] Rousseau. *Pour Sauver Quelques Millions*, see *Journal des Économistes*, Dec. 31, 1911.

"In the cost of work done by arsenals the following expenses appear:

"a. Expenses of operating the workshops of the arsenal, etc.—labor expenses and cost of supplies (coal, dynamos of workshop motors, etc.), called undivided expenses.

"b. Expenses of equipment, applied especially to new construction: the small equipment used in building (tools, borers, electric apparatus, stationary, construction stocks, and a certain number of machine implements).

"Among general expenses are not included:

"c. Wrongly, we think, the salaries of technical employees, engineers, and their assistants engaged solely in construction work. These are paid according to regulations contained in special chapters of the budget. The cost of a ship constructed in the arsenal would be increased so much more.

"d. Rightly, the expenses of large equipment: An arsenal is necessary in time of war. From this viewpoint workshops, dry docks, derricks, etc., are prime necessities. In time of peace the state must choose between two problems: to leave this equipment unused, or to employ it in new construction. The state has an evident interest in adopting the second solution. As the equipment would exist even if there were no new construction, it is legitimate not to include expenses of this character in the cost of such construction."

Whatever else he may say M. Klotz at any rate acknowledges that general expenses are not accounted for in the Navy. The distinction which he makes between the material to be accounted for and the material not to be accounted for, in the cost of a ship,

is a demonstration in itself of the arbitrary character of construction estimates: As equipment is used and replaced during times of peace, it is only just to add to the original cost of the products manufactured the cost of the equipment used in such manufacture.

The Navy department had fixed the net cost per ton of the three steel cruisers, *Jules Ferry, Léon Gambetta* and *Victor Hugo* at 2,211 francs, 2,230 francs, and 2,286 francs, respectively.

The Committee of Accounts on the work raised the general expenses from 12 to 23 per cent., so that the cost per ton came to 2,512 francs for the *Léon Gambetta,* 2,605 francs for the *Victor Hugo,* and 2,717 francs for the *Jules Ferry,* a cost higher than that of similar ships constructed by private companies. We quote in full the two estimates:

	Official Cost Fr.	Real Cost Fr.
Léon Gambetta	27,998,858	31,530,858
Jules Ferry	27,757,364	34,123,364
Victor Hugo	28,689,964	33,951,964

In the case of the *Jules Ferry* a covered stocks was erected, which was used only once, because the *Jules Ferry* was the last large boat constructed at Cherbourg.

5. In the report of M. Dalimier, on the postal, telegraph and telephone services, for the budget of 1912, repetitions of the usual complaints are to be found: Absence of preliminary estimates, apparent impossibility for the department to furnish any indication as to the total expenditures to be covered, etc.

M. Dalimier says:

"As presented, the budget of the postal, telegraph and telephone services[1] is indefinite. It contains certain minute details which make the total absence or the insufficiency of information regarding really important expenses appear the more regrettable.

"The utter lack of coördination results in the juxtaposition of partial accounts, prepared and presented with a disingenuousness which justifies all criticism:—general lack of method; too little attention to financial rules and true bookkeeping principles; no limit to the expenses when the sources of loans are abundant; accounts which are not sufficiently definite; frequent disorder in the preparation and execution of the work as well as in the management of the loans!"

In Émil Dupont's report to the Senate, regarding this same budget, I read:

"Many of these plans were not thoroughly developed when appropriations were asked for. In putting down 200,000 francs as the cost of inaugurating the work of enlarging the administrative offices of the service and rebuilding the Postoffice itself, the department was simply taking a figure at random. It acted in ignorance as to what part of the work the sum was to be applied, nor is the department yet aware, probably, how the money is to be divided between the two buildings which are to be rebuilt.

"The same statement holds good in the case of the baggage department of the Eastern railway station of Paris. The department demanded 100,000 francs and found out afterward that 70,000 francs would suffice for 1912.

[1] See *Journal des Économistes*, March 5, 1912.

"These overestimates in the case of important loans have been going on for some years, and are a direct result of the carelessness of those in charge of building loans. As further examples, we might cite the substations of Martignac, 120,000 francs; Rue Bertrand, 115,000 francs; and, in the city of Lyon, 316,000 francs."

The report of M. Dalimier shows up an ingenious administrative trick, characteristic of a particular psychological state.

But let us take another very similar example of the same tendency. In 1911 the Postoffice department demanded a loan of 522,135 francs for work on various postoffices. In 1912 it asked again for an absolutely identical amount. The first loan was applied to work then going on; the second had for its object the depreciation of work concerning which there has never been any discussion, and which will require an expenditure of 585,000 francs.

A "passion for spending" is characteristic of all public departments. The Dalimier report states that the work of reconstruction going on at the central telegraph office was started only by the aid of a loan of 100,000 francs obtained in 1908; and that each of the following years saw this figure grow, little by little, until it stopped finally at 979,000 francs, not including the 100,000 francs demanded in 1912 for the installation of a low-pressure heating system.

The report of M. Dalimier also furnishes a certain number of characteristic figures concerning the Postoffice expenditures:

	Expenses Provided for Fr.	Expenses Incurred Fr.
Lyon	510,853	826,401
Auxerre	277,000	393,920
Martignac	750,000	870,481
Dijon	743,950	958,901
Rue Bertrand	640,000	755,483
Bureau des Archives	1,000,000	2,650,370

In the case of the telephone office in the Rue des Archives [1] the preliminary estimate of expenditures covering purchases of land and construction reached 1,900,000 francs, while the entire building will cost 2,692,202 francs. Assuming that half the building of the Bureau of Archives is to be devoted to a multiple switchboard, designed for 500 subscribers, each subscriber will cost the state 269 francs. It is true that "immense hallways and superb galleries, offices, rest rooms, and rooms open to 20,000 subscribers" are to be found there.

6. The celebrated manufacturer, H. Laws Webb, at a meeting of the London Chamber of Commerce, on February 17, 1911, and the *Spectator,* as well, have made public the serious embarrassment which the operation of telegraph lines has entailed upon the English government.

Forty-five years ago, in 1866, the government first proposed the purchase of the British telegraph lines, then valued at 57,500,000 francs ($10,925,000). Negotiations lasted about three years, or until 1869, when Parliament appropriated 175,000,000 francs ($33,-

[1] See the Chéron report of May 10, 1911, upon a demand for supplementary appropriations.

250,000) for the carrying out of the purchase, or more than three times the original estimate. Moreover, the government was forced to pay a further sum of 100,000,000 francs ($19,000,000) to the railway companies for their rights over the telegraph lines established along the railroad tracks. Therefore, the complete acquisition of the undertaking cost the British government 275,000,000 francs ($52,250,000).

It had been predicted that, during the course of some twenty years, the net returns from the operation of the telegraph would contribute toward a very sensible reduction of taxation. But this delusion quickly vanished. There was, it is true, a small net profit in the first two years of state operation, but afterward the receipts were never sufficient to meet the interest on the capital invested; and, during thirty-nine years, this enormous deficit has been borne by the Treasury, that is to say, by the people.

Finally, under the pressure of public opinion, which had anticipated, as a consequence of such a measure, an increase in business and consequently of receipts, telegraph rates had to be reduced. The result, however, was exactly the opposite of what had been prophesied. On the one hand, the expenditures for maintenance and operation increased enormously under government administration, while the necessary keeping up to date of the installation rendered the receipts more and more insufficient and the demands on the Treasury more and more insistent.

When one takes into account all the elements, and, more especially, the amount of the original capital, which has never been paid off, the advances made by

Parliament, which have never drawn any interest, and the annual deficits on operation, the total commercial loss caused to the country by the purchase of the telegraph amounts at least to £35,000,000 ($170,450,000). The English taxpayer has not even the consolation of thinking that the government possesses an appreciable asset to offset this loss, because, in the case of this particular enterprise, each year of its operation entails a supplementary loss of more than 25,000,000 francs ($4,750,000). From a commercial point of view the purchase has been a complete failure.

The English press makes the following comments: The partisans of government ownership invariably reply to the charge that the British telegraph lines have been a heavy financial burden to the taxpayers with the statement that the public has received compensation in the form of a better and cheaper service. This assertion is plausible, but not convincing. Even if it were sound, one would be forced to ask by what right the whole body of taxpayers is made to subsidize people making regular use of the telegraph but constituting a minority of the population? The expense of operation per million telegraphic words is actually more than it was thirty years ago in Great Britain.

7. At a conference of postal employees, held at Leslie, April 18, 1911, Mr. Crossley declared that the Postal Savings Bank suffered an annual loss of 100,000 pounds sterling ($487,000), due to bad administration and bad investments.[1]

[1] *The Morning Post*, April 19, 1911.

8. When I was a member of the Municipal Council of Paris, of the Chamber of Deputies, and the Budget Committee, I watched with the greatest interest the infinite pains taken by my colleagues to set down on paper (by decreasing the preliminary estimates of expenses and increasing the provisional receipts), a balance in which the receipts would present a more or less insignificant surplus. As General Secretary of the budget I was accustomed to place at the head of my report the estimated figures of the budgets, as voted, together with figures of the supplementary appropriations which usually had to be added during the year.

In a long financial discourse before the Chamber of Deputies Fernand Faure defined the theory of two budgets: the estimated budget voted and the real budget spent.

At the present time the Chamber of Deputies spends weeks in examining the plan of the budget. On October 23, 1884, in one single sitting the accounts of 1871, 1872, 1873, and 1874 were approved. In one single sitting, also, the accounts of 1876, 1877, 1878, 1879, were accepted and this 11, 10, 9, and 8 years, respectively, after the close of the years concerned.

In 1912 the Committee on Final Accounts of the budget decided to examine in detail the accounts submitted to it. The first report, published in July of the same year, and the work of Louis Marin, relates to the accounts of the minister of Foreign Affairs for 1907. It lays bare the following facts:

1. That the various expenditures are often set down in such fashion as to conceal the real object of the expenditure.

2. That inaccuracy in deduction and confusion of matter are the rule.

3. That violations of the regulations in force are chronic.

4. That a great number of sales made in the name of the department are irregular or fictitious.

5. That waste abounds, and that, whereas many employees are paid too little, others benefit by unjustifiable generosity.

Now the department of Foreign Affairs has nothing to produce, nothing to sell. It does not need any special equipment for the carrying on of its work. It does not have to watch the market price of supplies and to buy them under the best possible conditions. In a word, it does not have to do any of the things required of a trading enterprise, in seeking openings, etc. Its staff is easy to manage, and has the reputation of being devoted. What would happen, then, if the department were called upon to manage a commercial undertaking?

9. All extravagant departments try to negotiate appropriations in a more or less round-about manner.

We have worked out a grand naval program, which is to extend over a period from 1912 to January 1, 1920. Its object is to add units to our fleet and to increase the facilities of the ports which are to receive them.

The outline of the plan includes a certain Article 9 which authorizes the government to construct ships enumerated in a certain schedule "A" in such manner as will insure the completion of sixteen men-of-

war on January 1, 1920. The two paragraphs read as follows:

"The expenses of carrying on the new construction will be provided for by entering the annual appropriations mentioned in schedule 'B' upon the budget for the fiscal years 1912-1919.

"In case the expenditures of one fiscal year should be greater than the provisions of the said schedule warrant, the excess shall be carried over by anticipation to the appropriations for the following year within a maximum limit fixed each year by the Finance Law."

The construction work to be carried out between January 1, 1912, and January 1, 1920, will involve, according to the original plan of 1910, an expenditure of 1,326,000 francs. The recent loss of the *Liberté* has increased the amount in round figures to 1,400,000,000 francs ($266,000,000).

The government was anxious, and rightly so, to charge these loans to ordinary expenditures. Yet it resorted to eating its corn before it was ripe, like Panurge. And this roundabout method was finally adopted by the Chamber of Deputies.

Two estimates were made, one indicating the actual amount to be expended per year for new construction; the other showing the distribution of the annual appropriations over the entire period.

The appropriations for 1912, 1913, and 1914 were the smallest for the period, while the proposed expenses were at their maximum in 1913 and 1914. The two estimates in detail were as follows:

	Estimated Expenditures Fr.	Estimated Appropriations Fr.
1912	177,327,000	160,000,000
1913	204,128,000	170,000,000
1914	229,149,000	175,000,000
1915	204,439,000	180,000,000
1916	189,252,000	180,000,000
1917	159,800,000	180,000,000
1918	143,684,000	180,000,000
1919	90,934,000	180,000,000
	1,398,713,000	1,405,000,000

Up to 1916 the expenditures exceed the appropriations by 139,295,000 francs ($26,466,050), but the Navy is empowered to carry over the excess by anticipation upon the appropriations of the following years. The sole check to such mortgaging of the future is a provision permitting Parliament to fix a maximum each year in the Finance Law.

Thus the custom of advances from the Treasury, which are to grow from year to year, has been firmly established. The Chamber of Deputies has specified, in the hope of decreasing the figure, "that the excess shall be regulated with the help of supplemental credits"—a practical application of the method of balancing budgets by means of supplementary appropriations.

Senator Gauthier, for the Finance Committee, brought forward strong objections to this system, which he justly described as a "disguised loan, or a loan by annual installments." He pointed out all the frauds which would result.

"The system of anticipations and that of supplementary credits superimposed upon it, has the advantage of au-

thorizing and legalizing expenditures not covered by the original appropriations; but it does not create any new revenue. The deficit still exists."

Each man-of-war had been estimated at a uniform cost of 62,525,000 francs, when made in the arsenals, and 64,000,000 francs in private shipyards. As a matter of fact, they have all cost exactly the same, except the new *Liberté,* constructed by the government, which cost 72,000,000 francs. England and Germany are providing battleships of 26,000 tons. Will we be long content with only thirteen battleships in the dockyards?

The minister of Finance "agreed to insert into the Finance Law of 1913 clauses purporting to cover by corresponding available resources the entire amount of expenditures incurred, which expenses will thus appear, at the end of the period of construction, as arranged for by the law providing for the naval program." In so doing he acknowledged the soundness of the criticisms of Article 9, made by the finance committee of the Senate. But he had already accepted for himself, and he has made the Chamber of Deputies accept his system.

I cite this case to show by what processes a department may attempt to secure resources by the help of disguised loans. It tries to escape from a unified budget by all sorts of devious methods.

We can judge to what plundering the general budget would be handed over if each department had its own autonomous industrial budget.

CHAPTER XXII

THE PURCHASE PRICE

Telephones.—The Southern Canal.—Swiss Railways.—The Western Railroad.—The "Opération Blanche."

When there is some undertaking to be purchased the partisans of nationalization and municipalization always start the ball rolling by saying: "Oh, it will cost practically nothing," and then they proceed to reveal their economic limitations by making estimates which are invariably lower than the facts warrant.

When the French government decided to take over the telephone, it estimated the cost at 5,000,000 francs. The company demanded 18,800,000 francs. The state was finally forced to compromise at 9,313,000 francs, a figure which, with interest and costs added, ultimately increased to 11,334,000 francs, or 126 per cent. more than the first estimate.

Again, when the government determined to purchase the Southern canal, an outlay generally regarded as wholly unnecessary, advocates of the enterprise were unanimous in their enthusiasm over the manifest bargain. "It will cost the state nothing." But the arbitration commission ordered the state to pay to the Southern company an annual indemnity of 750,000 francs, based on a capital of 25,000,000 francs.

Nor is France the only country furnishing examples of such frauds. Switzerland had similar experiences when she decided to purchase the railways. The Federal government appropriated a sum of 54,300,000 francs for the Central. The line actually cost her 75,000,000 francs, or 20,700,000 francs (36 per cent.) more.

Fifty-four million francs was afterward appropriated for the Northeastern line; 82,000,000 francs, or 28,000,000 francs (51.8 per cent.) more, was the actual price. The original appropriation for the Swiss Union was 31,700,000 francs; 40,000,000 francs, or 26.2 per cent. more, was the final figure.

An account of the government's underestimate of the cost of the Western line—the so-called "opération blanche" of M. Barthou—has already been described.[1] The state had appropriated in all 220,000,000 francs to cover the cost of purchase. It actually paid 321,000,000 francs or more than 101,000,000 francs over the original estimate.

[1] See Book 2, Ch. 8.

CHAPTER XXIII

DELUSIONS OF PROFIT AND THE LIFE INSURANCE MONOPOLY IN ITALY

1. The Law of April 4, 1912.—Legal Excuse.—Delusions of Profit.—Private Companies.—The Propaganda.—Officials as Insurance Brokers.—Work for the Sake of Service and Not for Gain.—Contradiction in Terms.—The Commissions paid by French Companies.—Dividends of Private Companies in France.—Probable Advantage to Italy.
2. Provincial and State Insurance.—Compulsory Fire Insurance in Germany, Bavaria and Switzerland.—In the Côte-d'Or.

1. In order to be assured that no deceptions would be practiced on it, in buying out the insurance companies, the Italian government put itself quite simply in their place. The resulting monopoly, confirmed by the law of April 4, 1912, had for its principal object the establishment of so-called labor pensions. "The profits drawn from this monopoly will be paid into the National Insurance Fund, upon the books of which any workman engaged in either industry or agriculture may be entered, provided he is not paying an annual government tax exceeding 30 francs."

The real excuse for the bill was the activity of the French and English governments in passing insurance laws. The Italian government decided that it ought

to bestir itself along the same lines. Therefore, instead of taking the sums necessary for its pension scheme from general budget funds, it created a special fund by establishing an insurance monopoly. Moreover, by the destruction of institutions which have been the most powerful agents in stimulating the spirit of individual thrift, the government hoped to promote a system of social thrift. The irreconcilable contradiction existing between free and compulsory insurance could not have been revealed in a more striking fashion, and it is only necessary to couple adjectives and noun in order to show the deceptive character of all enterprises of this nature.

But, it is strange enough that financiers as shrewd as the Italians should allow themselves to be deluded by the hope that the insurance monopoly would yield large resources. They have undoubtedly been seduced by the sight of the profits of insurance companies. But are such profits possible under government administration?

In the first place, in order to recruit policyholders, an active propaganda is indispensable. The policyholders of life insurance companies do not apply in the first instance to the companies. They must be sought for diligently and persuaded to take out a policy by an insurance broker, who demands a good and sufficient reward for his efforts in bringing about such investment. What measures has the Italian government taken to attract policyholders?

In presenting his bill to the Chamber of Deputies, the minister responsible for it declared that the National Insurance Fund "ought to undertake a cam-

paign of education which should penetrate into the farthest and quietest corners of Italy, even where the ordinary business man does not go on account of the improbability of any success attending his efforts. Therefore, the National Insurance department will accept as agents notaries, registrars, tax collectors, municipal officials, postmasters, men who are in constant touch with the people, and who can render valuable services to insurance by awakening the desire to look out for the future needs to a degree never before aroused." In a word, all public officials are to be ultimately transformed into insurance agents.

But, despite all the enthusiasm that these amateur brokers may be able to arouse, such coöperation will not be effective unless commissions are paid. And then what becomes of the all-important excuse for the substitution of a government monopoly for private enterprise, viz.—service rendered for the sake of the cause and not for gain?

Now the average agent works for the sake of gain; and the biggest cost item of insurance companies is the commissions of these same agents; even the government monopoly itself has preserved them. In the case of sixteen French companies, maintaining fixed premiums, these expenses amounted, in 1911, to 20,912,800 francs, to which sum must be added 16,172,000 francs of general expenses and 1,202,746 francs in gratuities and bonuses.[1]

What will be the insurance rates under public operation? If the state wishes to use persuasion, instead

[1] *Économiste Français*, July 27, 1912, reproducing the annual table of the *Moniteur des Assurances*.

of force, it ought to make its rates as easy as possible for the policyholders, but the profit to the state will, of course, be just so much less.

I have not at hand the profits of the life insurance companies in Italy, for 1911, but in that year the dividends of the sixteen French companies just mentioned reached the sum of 15,161,331 francs. Great as has been the economic development of Italy no one will pretend that its economic prosperity equals that of France. However, if the Italian monopoly is as efficiently administered as are the French insurance companies, and, if it has as capable agents, it might perhaps be able to realize half or two-thirds of the industrial profits of the French companies, in which case it would yield to the Italian government from 3,000,000 to 6,000,000 lire annually.

Very striking in this connection is the status of the old age pension system in France—a national undertaking. From 1851 to 1889 the amount of first payments was 816,323 francs, or, in 39 years, 20,931 francs a year. The laws of July 20, 1886, and April 9, 1898, increased the activity of the fund, but, even so, its usefulness has been mainly restricted to associations. In 1910 the number of their payments approximated 5,305,447, amounting to 79,982,892 francs, while the number of individual payments was only 82,780, aggregating 9,900,365 francs. In 1909 the private accident insurance companies had 4,856,000,000 francs on insurance policies, while the National Insurance Fund had insured for only 77,494,000 francs, a proportion of less than 2 per cent.

The mathematical reserves and the other funds available are to be employed as follows by the Italian National Insurance Fund:

1. In the purchase of bonds of the consolidated public debt of the kingdom of Italy.

2. In the purchase of other bonds issued or guaranteed by the Italian government.

3. In the purchase of securities issued by title guarantee trust companies.

4. In advances upon the guaranty of the bonds just described by numbers 1, 2, and 3, of the present Article.

5. In the purchase, by means of cession and subrogation, of annual debts of the Italian government.

6. In loans upon national insurance policies within the limits of the value of the policy.

7. In the purchase of real estate situated in the Kingdom, on condition that these properties be free from mortgages and all other charges and in a proportion not to exceed a tenth of the reserve.

8. In subsidies to employees and workmen of the state, provinces, and municipalities; public and philanthropic institutions; pawnshops; chambers of commerce and banks, on a guaranty of the cession of a share in the profits due them.

Where is the state which can guarantee that its income will constitute a perfectly sound investment when English consols are at 74 shillings? The Italian revenue is susceptible to sudden changes which make predictions difficult for both the monopoly and its policyholders. The government will have to as-

sume all responsibilities and the investments directed by clause No. 8 will be very difficult of execution.

The Fund enjoys privileges which assure it of certain resources, but only to the detriment of other government undertakings. For example, it has free use of the postal and telegraph services. Both these services thus lose revenues which private insurance companies would have yielded them.

Finally, the profits of the monopoly are exempt from the income tax, which private companies would have to pay.

The officials who are to act as insurance agents have their own duties to fulfill. Unable to devote more than their idle moments to the new task, they will always be working at a disadvantage. Nor is every man fitted by nature for the rôle of insurance agent. Not only is the taste for it lacking, but skill, tact, and technical ability will be wanting.

Possibly the officials will gather some personal benefit by reason of the added authority which their new position gives them. They may, perhaps, be able to obtain by main force policies which ordinary agents are not able to get. But, successful insurance is not only a question of affixing a signature, nor even of the first payment on a policy. A policyholder must persevere. What if he slips back after the agent has received his commission?

This is a risk which all insurance companies know. The state will also discover it, but it will find itself placed in a still more difficult position by the necessity of refusing contracts brought in by its officials and employees. It will be forced to choose its policy-

holders, to accept some and refuse others, and insurance exiles, branded with a sort of discredit, if not infamy, will thus be created.

Italy and Uruguay are the only countries which have experimented with national life insurance. The independence of the National Insurance Fund of Uruguay is greater than that of Italy. It was established by a law of December 26, 1911, and is, therefore, too recent to furnish any authoritative data.

Systems of state fire insurance are found in other countries. In Germany public fire insurance associations "have always been energetically supported by the government." [1] Landed proprietors are compelled to insure their property with public offices in Bavaria, Württemburg, and the grand duchies Baden and Hesse. Private insurance enterprises are limited to personal property and to risks on real property not insured by the state.

Nevertheless, it has not been found either possible or advisable to oust the private companies, as is proved by the following table, giving the insurance situation in Germany in 1906:

	52 Public Fire Insurance Associations	16 Benefit Societies	32 Companies
Receipts:	Millions of Marks		
Assessments, or gross premiums	78,343	36,094	190,347
Miscel. returns	73,660	33,935	107,134
Expenses:			
Indemnities and taxes	51,708	10,294	90,291
Miscellaneous expenses:			
Contributions to fire companies and amortization	16,094	5,114	34,389

[1] *Annales de la Regie Directe*, April, 1911.

The Municipal Fire Insurance Fund of Rostock has reinsured with a private company the total capital insured by itself. It is, therefore, nothing more than an agency for the collection of premiums and the distribution of indemnities.[1]

The canton of Waad has insured both real and personal property since 1849; insurance is compulsory. Personal property insurance is unknown in any other canton,[2] but national insurance of personal property is about to be established in Switzerland.

In the insurance system in operation in the canton of Waad the cost of administration was 13 francs 48 in 1907; in Glarus, from 1895 to 1905, 9 francs 34 per 100, and in 1907, 13 francs 48.

The state must accept all risks, the bad with the good.

December 20, 1907, the French minister of the Interior announced that he would not oppose the creation of a departmental fire insurance fund in the district of the Côte-d'Or. The fund was therefore established, January 1, with an annual subsidy of 15,000 francs from the General Council, and with a central bureau installed in the prefecture.

A clause limited the insurance premium to 10 francs; but this clause, considered "as a slight anti-collectivist barrier," has disappeared. The advantages extolled are: The annual policy; the opportunity of insuring one's self at the town hall of one's own town; "following a disaster an appraisal of dam-

[1] *Annales de la Regie directe*, April, 1911, page 169.
[2] *Ibid.*, December, 1909, page 47.

ages devoid of any spirit of quibbling or barter." The policyholder is always free to withdraw or to modify his policy.

No bargaining; ample satisfaction! Under certain circumstances insurance may well become an opportunity for profit in a sense never intended.

Here are evidently advantages beyond those offered by private companies—at the expense of the taxpayers in the first place. Ten years hence the actual results may be known.

Two French deputies, MM. Cartier and Coudère, have each introduced a bill, establishing a state monopoly on every species of insurance. Both have been reported favorably by Brisson.

In the case of the fifty-four most important French insurance companies, with fixed premiums, life, fire, etc., the profits are estimated at 31,000,000 francs. After deducting reserve and sinking funds, a net profit of 25,000,000 or 26,000,000 francs remains. Let us suppose that, with the help of first-class investments, the state can obtain a net amount greater than this profit and equal to the total dividends distributed by the companies, or, in other words, 35,000,000 francs.

Unless the state confiscates it will have to pay the companies between 1,000,000,000 and 1,500,000,000 francs, in order to buy them out, which sum, at 3 per cent., represents an annual interest of from 30,000,000 to 45,000,000 francs. Then add to this amount a sinking fund of about 10,000,000 francs. We have thus an asset of 35,000,000 francs, with liabilities of 40,000,000 to 55,000,000 francs. The bal-

ance of this operation is a deficit of 5,000,000 to 20,000,000 francs.

But how will it be if the state system operate with less favorable results than private companies—an almost certain contingency? The losses might well reach 30,000,000 or even 40,000,000 francs.[1]

[1] *De Monopole d'État. Rapport au Congres de Chambre de Commerce,* by M. de Lasteyrie.

CHAPTER XXIV

THE FISCAL MINES OF THE SAAR DISTRICT

The Prussian Government Mines.—Decrease of Profits.

Not only railways, but all other state undertakings are exposed to commercial risks. Their profits do not always increase, as is proved by the fiscal mines belonging to the Prussian government. The following tables show the decease in the aggregate in the accounted profits of Prussian mining undertakings:

Years	Reported Profits Marks	Number of Workmen	Profit per Capita Marks	pf.
1890	24,464,000	36,475	433	19
1891	17,112,000	57,939	395	36
1892	13,829,000	57,307	241	33
1893	15,084,000	55,322	272	66
1894	15,024,000	57,009	263	55
1905	30,651,000	84,244	363	84
1906	27,444,000	89,130	307	92
1907	14,622,000	92,776	157	61
1908	16,136,000	96,845	166	62
1909	17,000,000	101,941	166	76
Average				
1890-1894 ..	17,102,600	52,810	321	22
1895-1899 ..	27,302,552	64,375	424	05
1900-1904 ..	34,846,403	77,462	449	85
1905-1909 ..	21,170,600	92,987	232	55

The enormous falling off after 1905 is readily seen; the decrease per workman is 48 per cent., compared with the previous period.

A similar decrease is to be noticed in all the mining enterprises except that of salt.

	1890	1906	1907	1908	1909
		Thousands of Marks			
Mining undertakings except salt	20,415	20,987	8,058	10,921	11,299
Metallurgical works ..	1,099	4,245	1,982	882	31
Salt works	1,749	668	3,210	3,930	5,031
Thermal establishments	34.7	35.1	34.0	5.5	111.1
Total	23,297.7	25,935.1	13,284.	15,738.5	16,472.1

The decrease in the profits in government mining ventures is due, above all, to the coal mines of the Saar district.

The following triennial tables show the changes which have taken place since 1900 in the cost and the selling price per ton of the coal from these mines:

Cost per ton in marks

Years	Salary	Equipment	Charges for the Benefit of Workmen	Taxes	Total[1]
1900	4.74	1.64	0.44	0.12	1.43
1903	4.89	1.57	0.52	0.18	1.82
1906	5.26	1.74	0.55	0.16	1.78
1909	5.52	2.11	0.74	0.19	2.13

Selling price and profits

Years	Price Actually Realized	Expense for New Installation	Complete Profit	Total[1]
1900	10.68	0.14	2.76	2.90
1903	10.00	0.22	1.48	1.70
1906	10.40	0.28	1.36	1.64
1909	11.03	0.58	0.59	1.17

The net cost has increased 48 per cent. and the profits have decreased 59 per cent. The budget es-

[1] Translator's Note—I have been unable to verify these figures, which appear to be incorrect.

tablished by the Prussian Department of Mines, Foundries, and Salt Works, has been worked out on new principles, such as a distinction between the costs of administration and the expenses of operation, reserves for new installations, current expenses, etc. Miscellaneous expenses, figuring heretofore in the general budget of the Prussian government, although really concerning financial operations, have been carried over to the budget of the Department of Mines, Foundries, and Salt Works. Hence, there is a decrease of 8,859,177 marks in the preliminary estimate of the net profit as compared with the budget of 1911.[1]

The gross profit upon Prussian fiscal mining enterprises was estimated for 1912 at 18,215,000 francs; the net profit at 5,938,000 francs. It should be explained, however, that a certain amount had been previously deducted for the Academy of Mines at Berlin, as well as for the Geological Institute.

[1] *Circulaire du Comité Houillères*, February 10, 1912.

CHAPTER XXV

PUBLIC *VERSUS* PRIVATE ENTERPRISE

1. A Priori Reasoning Contradicted by Facts.
2. The National Printing Office and the Paul Dupont Printing Company.
3. Naval Construction.
4. Two Piers.—The Telephone Company and the Post-office.
5. Indemnities for Losses Upon State and Private Railway Systems.
6. Public and Private Electrical Plants in Germany.
7. Other Results in Germany.
8. The Municipal Public Service of Paris.—M. Dausset.—Superiority of Private Enterprises.—Benjamin Welton.—Psychology of the Middleman.
9. Reaction Against State Undertakings in New Zealand.
10. Letter of a Citizen of Manchester.—Conduct of Industry and Its Regulation.

1. The partisans of socializing and of municipalizing all sorts of public services never tire of the old refrain that state and municipalities manage enterprises for the good of the service, and not for profit, and that, therefore, we ought to get them at a lower cost. *We ought to.* Here we have *a priori* reasoning. The trouble is that such reasoning is constantly contradicted by the facts.

2. Some years ago the net profit on the National Printing Office of France apparently represented

nearly normal interest on the capital invested. However, an investigation gave M. Colson an opportunity of declaring that this result was only obtained by an "exorbitant" increase in the prices demanded. In proof of his statement M. Colson gave the following significant example:

The Paul Dupont Company had arranged to furnish the Navy with forms and designs at the same cost as the National Printing Office, less the expenses of composition, correction and holding of forms. The National Printing Office maintained that the Dupont Company was working at a loss in order to ruin the credit of the government establishment. An inspector of finances (*inspecteur des finances*) declared, officially, that this assertion was false, and that the Dupont Company both could and did make a profit on the business, despite the reduction granted to the Navy.[1]

3. On December 13, 1911, the Assistant Secretary of the United States Navy, Mr. Watt, told a committee of the House of Representatives that the battleship *Florida,* constructed by the government, cost per ton (hull and engines only), 1,374 francs 50 ($265.28); while the *Utah,* constructed by a private company, cost 904 francs ($174.47). In 1910 Congress authorized the construction of two battleships, the cost of which it limited to 30,000,000 francs ($5,700,000). The private company did its work according to contract, at a cost of 500,000 francs less than the original estimates; the navy yard required addi-

[1] *Communication à l'Academie des Sciences Morales et Politiques,* August, 1912.

tional appropriations until the actual cost reached over 35,000,000 francs ($6,650,000).

I read in the *Army and Navy Journal,* January 28, 1911:

"The Committee on Naval Affairs recommends, also, that Congress give to Secretary Meyer the power to construct in a private shipyard the battleship *New York,* the building of which was authorized during the last session; the secretary having shown that it will cost the government at least eight millions and a half more to construct the *New York* in the Brooklyn Navy Yard by reason of the eight-hour law."

It is only in France that the Navy constructs more ships than it hands over to private companies for construction, as the following table shows (1911):

	Deep Sea Vessels		Torpedo Boats	
Countries	Private Companies	Navy Yard	Private Companies	Navy Yard
France,				
Tons	73,400	83,634	15,944	11,358
Proportion per cent.	47	53	58	42
England,				
Tons	388,108	231,830	92,480	2,400
Proportion per cent.	63	37	97	3
Germany,				
Tons	320,562	75,154	46,200	
Proportion per cent.	81	19	100	
United States,				
Tons	184,075	48,825	27,200	
Proportion per cent.	79	21	100	

4. In the cities of Portsmouth and Southsea there are two piers: The one is private property, the other

the property of the city. The first is a success; the second a "white elephant." [1]

Faithful Begg, one of the best-known authorities on business conditions in England, declared before the London Chamber of Commerce, on the 18th day of May, 1911: "The National Telephone Company operates on 58 per cent. of its gross revenue, while the Postoffice operates on 74 per cent. The Postoffice earns 3.5 per cent. on the capital invested, and the National Telephone Company is earning 8.9 per cent."

5. On the Western (state) railway of France, from 1904 to 1908, claims for loss, damage, and delay amounted to 1,566 francs per 100,000 francs of gross receipts. From 1909 to 1911 this proportion reached 3,043 francs. On the old state system the proportion was 1,426. Since 1909 this sum has increased to 2,055 francs, which proves that the Department of State Railways, while extending its lines, has not improved them. On the Est, Midi, Nord, and Paris-Lyon-Mediterranée—all privately owned lines—the average is 1,175 francs. Thus the claims on the Western are 157 per cent. higher, and on the two other state systems 75 per cent. higher than on the private lines.

I might add that the Western has fallen back on the plea of "circumstances over which we have no control," floods, strikes, etc., a subterfuge to which the private companies have not found it necessary to have recourse.

[1] *Truth*, April 26, 1911.

6. A German engineer, Wilhelm Majerczik, has published a comparative study of the results accomplished respectively by municipal and private electrical enterprises in Germany.

We borrow the following facts from the analysis of his study published in the *Revue Économique Internationale,* of July 15, 1912. The figures were taken from the latest available statistics.[1]

In his survey Herr Majerczik has passed over the Berlin and Hamburg plants, operated by private companies, as their prosperity so far exceeds the average that his comparisons would have been unduly affected by them. Moreover, his study bears only upon electrical plants supplying localities with a population of at least 100,000 inhabitants. These installations number fifty-six, and are subdivided as follows:

	Municipal Plants	Private Plants
Number	41	15
Population in territory supplied	9,571,000	3,363,000

(The information given relates only to fourteen of the private plants in question, data as to the fifteenth not being attainable.)

The situation of the private plants is actually less favorable to development than that of the public plants. Yet, out of thirty-eight municipal undertakings, twenty supply only a single locality. The extent of territory supplied by private enterprises is double that of municipal enterprises.

[1] *Statistik der Vereinigung der Elektrizitätswerke für das Betriebjahr,* 1909, Dortmund,, 1910, supplemented by the *Statistik der Elektrizitätswerke in Deutschland nach dem Stand, vom April 1, 1910.* G. Dettmar, Berlin, 1910.

The municipal enterprises are the older; for, in the beginning, such undertakings were considered the special prerogative of local governments.

	Municipal Operation		Private Operation	
	Average	Number of Plants	Average	Number of Plants
1. Average number of inhabitants in region supplied per plant	234,000	41	240,000	14
2. Number of suburbs supplied per plant	9.2	38	37.2	15
3. Average area per plant in km.^{2}	62.4	30	148.6	8
4. Average age (per plant per year)	13.1	40	11.1	15

The superiority of the equipment of private enterprises is demonstrated by the fact that the average productive capacity of municipal plants is scarcely three-fourths that of private plants.

	Municipal Operation		Private Operation	
	Average	Number of Plants	Average	Number of Plants
5. Number of boilers per plant	15.5	37	13.6	14
6. Maximum pressure kilogram per sq. cm.	11.7	37	13.6	14
7. Heating surface per boiler	226	37	266	14
8. Number of prime movers per plant	8.2	36	9.6	9
9. Maximum power per machine kw.	350	36	988	9
10. Average total capacity of accumulators kw.	8,000	34	10,500	14
11. Distribution:				
Entire system.	489	41	517	11
Overhead	57	41	281	11
Underground	432	41	236	11

The fewer boilers of the private plants are of a more economical type than those of public plants, and the prime movers are more powerful (Nos. 5 to 10).

In comparing light and power circuits we have 55.3 kw. per 1,000 inhabitants for 33 public plants, and 79 kw. for 11 private plants. If traction be added we have 65.9 kw. for the first, 80.9 kw. for the second. Municipal plants furnish power for traction to a greater extent than private plants, because the great

OPERATING RESULTS

	Municipal Plants		Private Plants	
	Average	Number of Plants	Average	Number of Plants
18. Energy produced per heat unit, wh.....	0.086	34	0.103	11
19. Energy produced in per cent. of the total capacity, multiplied by 8,760 hours, per cent.	17.0	35	20.0	11
20. Average time of use of total power of plant, hours	1,317.10	36	1,480.0	10
21. Annual loss of energy in per cent. of the energy produced	20.3	35	22.9	10
22. Energy furnished per inhabitant .	9.1	31	12.4	8
23. Private lighting kwh.	0.81	36	1.39	9
24. Public lighting, kwh.	14.2	21	23.9	8
25. Power, kwh.	27.4	38	36.2	9
26. Traction, kwh. ..	16.4	24	9.7	3
27. Total, kwh.	37.0	38	39.5	9

municipal undertakings control all the important tramway systems.

Private enterprises are operated more economically than municipal undertakings.

They can produce greater power per heat unit because they employ boilers and engines of greater unit capacity and the agent of supply is better; that is to say, with a given apparatus, they are called upon to produce more. Their losses are greater, because they operate as central stations at long distances. Private central stations furnish 30 per cent. more energy for private lighting, and 60 per cent. more for public lighting per inhabitant. They also sell much more energy for power.

The financial results are as follows:

The installation costs, on the average, are 1,160 marks per kw., for municipal plants, and 1,240 marks for private plants. The private plants operating at long distances have a more expensive system of high tension lines and transforming stations. Nevertheless, they can furnish 1 kwh. 28 per mark of cost of installation, while municipal plants can only furnish 1 kwh. 12. They also content themselves with lower rates.

The following table gives the difference in rates between municipal and private plants:

RECEIPTS PER KWH SUPPLIED

	Municipal Plants Pfennigs	Private Plants Pfennigs
Light	36.8	31.6
Power	15.7	12.5
Traction	9.95	9.13

For light the average rate charged by private companies is 14 per cent. less than that of municipal plants; for power, 20 per cent. Even for traction there is a difference of about 8.3 per cent. in favor of private plants.

The superiority of private plants is shown above all in the matter of expenditures.

EXPENSES PER KWH SUPPLIED

	Municipal Operation Pfennigs	Private Operation Pfennigs
Fuel	3.69	2.98
Oil	0.13	0.09
Wages and salaries	2.04	2.15
Maintenance	0.97	0.96
Miscellaneous	1.17	1.74
Total	7.90	7.80
Gross difference, per cent.	13.2	9.5

The expenses for fuel, oil and maintenance are less for private plants, because these plants are better equipped and better managed. Yet the labor expenses are higher. The miscellaneous expenses are also higher, because private plants are subject to local taxation from which municipal plants are exempt. If taxes were taken into consideration the gross difference between expenditures and receipts, which is 13.2 per cent. for municipal and 9.5 per cent. for private plants, would be materially modified. The differences would be reversed if private plants did not have lower rates.

H. Marchand, in a summary of the work of Herr Majerczik, concludes that, from every point of view, public ownership and operation of the generating

forces of electricity can only be carried on at a disadvantage.

7. In the *Journal des Débats* and in the *Économiste Français* Arthur Raffalovich has asserted that public ownership and operation in Germany has been by no means so successful as enthusiastic partisans of government ownership in France and elsewhere have tried to make us believe. Several municipal enterprises have recently been liquidated and a number of electrical plants and tramways sold outright.

Recent reports of the Burgomasters of Strassburg and Rheydt affirm that the operation of great industries by municipal authority is encountering numerous difficulties; that it is lacking in flexibility; that it is exceedingly hard to find competent managers; that the influences brought to bear are frequently far from disinterested, and often conflicting; that the majority of the municipal councillors have no comprehension of industrial or commercial business; that real profits are rare. In 1908, out of 36 municipal tramways, only 9 were operating without loss, while 11 were requiring rather heavy appropriations.

The burgomasters charge that cities which are supplying directly their own gas, electricity, and tramways are being delivered over without let or hindrance to the ringleaders of the various labor associations.

In Germany to-day there is a very marked evolution in the direction of private management, the city retaining the ownership of the enterprise, but leasing the operation to a corporation. Cologne has con-

tracted with a private company to supply the extra electricity needed, and the city has also promised not to enlarge its electrical plants.

8. In his report on the municipal budget of Paris, for 1912, M. Dausset acknowledges the superiority of private enterprise over public administration in the following terms:

"It may as well be confessed that a special mechanical equipment or a skilled staff is only to be obtained by applying to a private company."

The business man keeps in touch with the latest developments and spares no efforts to select his markets under the best possible conditions. Public management, "even in those rare cases where it ventures to take the initiative and point out to the council the necessary improvements and repairs, is obliged to wait several months, if not several years, to obtain the money or the indispensable authority."

The same conditions prevail in the case of street cleaning. The City of Paris is unable, with its limited annual resources, scarcely sufficient for current expenses, to bring about a rapid renewal of out-of-date equipment. The contractor, on the contrary, has at his disposal for such a purpose capital that he can pay off at his leisure, and which permits him, moreover, to offer attractive terms. Finally, being careful to reduce the cost of maintenance to a minimum, the contractor enters only after careful consideration into initial expenditures. His chief reliance is in a first-class equipment.

M. Dausset continues:

"The contract system is equally well suited to the paving and asphalting of the streets, and their maintenance.

"Here again everything depends upon the quality of the material employed and on the process and the care in manufacture, as well as on the way the work is performed. Taking into account the importance of the streets and the traffic they will be called upon to bear, the contractor would know how to make the necessary distinctions and would not hesitate, for example, to increase by a centimeter the thickness of the asphalt bed demanded by the specifications, if the street were much frequented, in order to escape expensive repairs in the near future, and to lessen thus the annual cost of maintenance.

"In the same way, in the case of construction and maintenance of cobbled roads, the government, ill equipped and lacking the flexibility indispensable for performing such work rapidly and economically by profiting by the experience of each day, has every interest in leaving such work to private industry, while reserving for itself the equally important and delicate task of control."

In his investigation of the efficiency of municipal work Benjamin Welton also shows the superiority of the business man over the public official.[1]

"The problem that he has to solve is simple, and he considers it as a whole. He is not hampered by all sorts of restrictions. He seeks the most competent men, discharges the incapable, and is able to give bonuses for

[1] *Efficiency in City Government*, page 111.

increase of production. His rule is to compare expenditures and results. He does not hesitate to make necessary expenses which will be economy in the long run. He organizes his units in such a manner that they give the maximum income. Above all, it is impossible to falsify his reports because they are verified by the party with whom he is under contract."

9. The Socialists would have us believe that from the moment a government or a municipality engages in the nationalization or the municipalization of public utilities it perseveres in the undertaking.

Yet we have seen that such undertakings have been abandoned in Great Britain and Germany, while, as for New Zealand, Mr. Scholefield, in 1909, and Messrs. Le Rossignol and Stewart, in 1912, are united in the conviction that:

"Of late years the whole tendency has been to leave more and more to private enterprise. It is a swing of the pendulum. Ten years ago the government would not have dared to suggest allowing private companies to develop the great assets latent in the energy of the rivers of New Zealand. To-day it is the avowed policy of the state to encourage private enterprise in this direction. It is highly improbable now that New Zealand will make any further pronounced advance toward State Socialism until a new temper succeeds to the present mood of conservative Liberalism."

The New Zealanders are not theorists, but a certain number are sufficiently shrewd to perceive that, when a loss is resulting from a state enterprise, it affects the whole nation. In other words, that the govern-

ment in pursuing such a policy is forcing some individuals to help to bear the financial burdens of others.

10. J. C. B. Perry, in a letter to the *Manchester City News,* of March 4, 1911, said:

"If gas were being furnished by a private company it would have to have a high illuminating power. We cannot force the gas committee to give it, and it does not give it. If the tramways belonged to a company they would not be permitted to monopolize the streets in the center of the city to the detriment of all other species of transportation. Our market committee is losing on its refrigerating plants, while a competing company is a commercial success and is giving 'cheap food'."

When political or administrative bodies, whether states or municipalities, operate, they are regulating themselves. This is a sufficient reason in itself for the suppression of all public trading operations, because *it is necessary that there be a distinct separation between the forces of operation and regulation.*

Industrial operation is inherently adapted to private enterprise. Industrial control is the corresponding function of states and municipalities.

BOOK III

ADMINISTRATIVE RESULTS

CHAPTER I

ADMINISTRATIVE RESULTS

Friends of socialization and municipalization, handicapped by the financial results of the various forms of government ownership publicly advocated by them, have recently made a change of front. All right, they say, publicly owned utilities do not bring in profits; but to compare public administration with private is to do the former an injustice. Its aim is not profit but service. It sacrifices financial results to administrative results in the interest of the moral and material progress of the nation.

These theorists, in regard to "administrative results," forget that nothing is free, that everything must be paid for, and that public services are by no means the cheapest.

However, looking at the matter from their standpoint, let us examine the administrative results of direct operation by the state and the municipality and see in how far their statements are borne out by the facts.

CHAPTER II

THE SAFETY OF TRAVELERS UPON STATE AND PRIVATE RAILWAY LINES

The Safety of Travelers and the State System.—The Report of Albert Thomas.—Comparisons.—The Minutes of the French Senate.

In a number of articles, published in the *Annales de la Régie Directe,* Edgard Milhaud has tried to prove that safety is absolute upon government railway systems and precarious in the extreme upon privately managed systems.

The budget commission of 1912 entrusted to Albert Thomas, a United Socialist, the compilation of a report on the budget of public utility franchises. He declares himself that "his report is completely permeated by Socialist thought"; and he winds up by recommending the purchase of those French railways still in private hands.

As he could not bolster up his argument with the results of the Western railway, since a number of accidents unfortunately interfered with such a possibility, he passes it over, and speaks only of the old state system. His argument is not lacking in courage, because the following facts, among others collected by Charles Macler and completely contradicting it, had already appeared in the *Journal des Économistes:*

"Basing his arguments upon the statistical studies of Edgard Milhaud, M. Thomas maintains the bold theory that safety is assured only on railways operated by the state. The argument of MM. Milhaud and Thomas is rather naïve. There are more accidents upon the railways of the United States than upon those of the Belgian line; there are more upon the English company system than upon that of the Prussian government system; there were more accidents upon the Swiss railways before than after the purchase; *consequently,* there are more accidents in France upon the systems operated by private companies than upon the state system. *'However surprising this declaration may appear to many,'* says M. Thomas, *'the fact is scientifically established.'* Surprising, in fact, especially just after the catastrophes of Villepreux, Courville, Bernay, Ponts-de-Cé, Saujon, Montreuil-Bellay. As to whether the theory is scientifically established, let us see:

"In the first place, if we compare the railway accidents upon the systems operated by private companies with our old government system (we pass over the Western system, as M. Thomas has done), we declare that, according to the statistics of the ministry of Public Works, the total average number of passengers killed and injured from 1905 to 1909 was:

Passengers Killed and Injured

	Government Systems	Private Systems
a. Per million carried	1.58	0.79
b. Per million passenger kilometers	0.03	0.02
c. Per million train kilometers....	2.01	1.46

"In whatever manner we examine the statistics, the average number of victims of accidents resulting from traffic upon the old government system, the so-called model system, is noticeably higher than upon the private

systems. The preceding period, that is to say, 1901-1905, gives precisely the same results. If we consider separately the number of the killed and injured, the results in the case of each of the above items are disadvantageous to the state.

"When we pass on to a comparison of accidents between the French systems as privately operated and the principal foreign government systems, we discover that the victims of accidents have been much less numerous upon the first than upon the second. We borrow our figures from the latest statistics, those of the year 1909.

"First, let us take Belgium. Here are the figures presented by the report of Belgian railway operations compared with the statistics of the Ministry of Public Works in France:

		Belgian Government	French Companies
Per million passengers carried	Killed	0.03	0.01
	Injured	2.67	0.46
Per million passenger kilometers	Killed	0.0015	0.0005
	Injured	0.12	0.01

"The superiority of the French companies is incontestably shown.

"Let us take Germany. The following figures are taken from the *Annuaire Statistique pour l'Empire Allemand,* published by the Imperial Statistical Bureau:

		Germany	French Companies
Per million passengers carried	Killed	0.08	0.01
	Injured	0.38	0.46
Per million passenger kilometers	Killed	0.003	0.0005
	Injured	0.016	0.01

"The advantage is again on the side of the French companies.

"Let us take Austria. Here are the figures taken from the report of the operation of the Austrian government railways, published by the Ministry of Railways:

		Austria	French Companies
Per million passengers carried	Killed	....	0.01
	Injured	2.25	0.46
Per million passenger kilometers	Killed	....	0.0005
	Injured	0.07	0.01

"Here, again, the advantage is altogether on the side of the French companies, in so far, at least. as the number of injured is concerned.

"Now Hungary. Here are the figures drawn from the statistics of Hungarian railways, published by the ministry of Railroads:

		Hungary	French Companies
Per million passengers carried	Killed	0.23	0.01
	Injured	1.01	0.46
Per million passenger kilometers	Killed	0.007	0.0005
	Injured	0.03	0.01

"Once more the advantage is with the French companies.

"Let us take Switzerland. The figures are taken from the statistics of Swiss railways, published by the Federal Postoffice and Railway department:

		Switzerland	French Companies
Per million passengers carried	Killed	0.13	0.01
	Injured	0.74	0.46
Per million passenger kilometers	Killed	0.008	0.0005
	Injured	0.03	0.01

"In all cases the advantage is with the French companies. It may be said positively that the safety of passengers is much greater upon the systems of the French

companies than upon those of the French, Belgian, German, Austrian, Hungarian, or Swiss state lines. This conclusion is again borne out by the figures regarding accidents of all kinds per 100 km. operated. While the figure is 3.81 for the French private lines, it is 5.9 for Germany, 10.1 for Italy, 12.5 for Austria, and 50 for Switzerland.

"Nor is this all. If we compare the statistics of accidents in those foreign countries where public and private operation exist concurrently, we find that accidents are more numerous upon the state-owned systems.

"In Austria and in Switzerland the accident statistics of private lines are not given separately, but a comparison between the figure for accidents upon the government systems considered alone and upon the whole railway system of each country makes clear the measure in which this last figure is influenced by results on private lines. The number of accidents resulting from traffic on all the lines together is smaller than that of the accidents upon the state systems alone, which proves that accidents are much less numerous upon private systems than upon government lines. Here are the figures:

	Per Million Passengers Carried			
	Austria		Switzerland	
	Government	Government and Companies	Federal Railways	Federal and Company Railways
Killed	....	....	0.13	0.11
Injured	2.25	1.98	0.74	0.72
	Per Million Passenger Kilometers			
Killed	....	....	0.008	0.009
Injured	0.07	0.06	0.036	0.036

"Finally, let us take the statistics of the victims of accidents, including both passengers and employees. The question of the safety of operation is well worth examining from this point of view.

"We find that the whole number of killed and injured per million train kilometers is 4.49 on the French privately operated systems, as against 15.3 on the Belgian government system; 7.6 upon the Austrian government system; 8.1 upon the Hungarian government system; 40.1 upon the Swiss railways (23 upon the Swiss companies); 5.10 upon the German railways; and 32.4 upon the Italian railways.

"After having seen these figures our readers will find the contention of Albert Thomas still more surprising. In all the European countries that we have passed in review, safety is greater upon the private lines than upon those of the government. It is a fact established by official statistics."

On August 4, 1907, the accident on the Ponts-de-Cé took place, resulting from the disregard on the part of the government of my order of 1891 for the annual inspection of steel bridges. This accident caused the death of 30 passengers. In August, 1910, the accident at Saujon, near Bordeaux, occurred, causing the death of 40 passengers. On June 18, 1910, came the accident at Villepreux, upon the Western railway, when 18 deaths were reported; and, on September 10, 1910, the accident at Bernay, when there were also deaths. February 14, 1911, occurred the accident at Courville, which caused the destruction of an entire family and ten other deaths.

The six greatest railway accidents that France has suffered during five years have thus all occurred on the government system: three on the Western, and three on the old government system, which the state has operated during nearly 35 years, and which has only

2,292 kilometers (1,433 miles), making the line about fifth in size of the important systems of France.

On November 24, 1911, the accident at Montreuil-Bellay inspired a discussion in the Senate, which resulted in the following resolution:

"The Senate proffers the assurance of its profound sympathy to the victims of the catastrophe at Montreuil-Bellay and its congratulations to the rescuers, and, after taking cognizance of the declarations of the minister of Public Works that efforts are being made to improve the deplorable condition of the Western line and expressing its confidence in the ability of the government to put an end to the insecurity and also to the irregularity of railway operation, lays the resolution on the table."

Thus the Senate, with the approbation of the ministry, solemnly affirmed "the deplorable situation, insecurity, and irregularity in the operation of the Western," *apropos* of an accident which occurred on the old state system.

The *Journal Officiel,* of July 12, contains the following question, put by M. Engerand, deputy, to Jean Dupuy, minister of Public Works:

"What is the number of engines, coaches and freight cars destroyed or damaged in accidents which have happened upon the Western railway from January 1, 1909, to March 1, 1912?"

He received the following answer:

"68 engines; 30 tenders; 198 coaches; and 451 freight cars."

If the Socialists cannot cite the financial results of the state system as an argument in favor of the nationalization of the railways, the ill digested statements of Edgard Milhaud and Albert Thomas, regarding the security they offer, will certainly not convince anyone.

CHAPTER III

DISORDERS, DELAYS AND ERRORS

1. Telephones.—The Report of Marcel Sembat.—The Office in the Rue Gutenberg.—Motives Dictating the Choice of the Site.—Consequences.—The Commission of 1900-1905.—"A Wise Delay."—M. Steeg.
2. The Administration of the Telegraph.—Technical and Operating Services.—Maintenance.—The Underground System of Paris.—The Lost and Found Cable.—The National Printing Office Again.—Lack of Foresight of the Tobacco Monopoly.—Construction of Government Buildings in Paris.—Misinformation.—The French Minister of Agriculture.—The Naval Intelligence Department.—Increase of State Functions Increases Difficulty of Control.

In his character of Socialist Marcel Sembat wishes the state to take over all public utilities. Yet, as reporter of the budget of the postoffice, telegraph and telephone systems, included in the general budget of 1906, he has demonstrated very clearly what becomes of a trading enterprise in the hands of the state.

When the telephone first appeared in France the government, considering that it would be hazardous to attempt its operation, granted to private interests the authority to take upon themselves this experiment at their own risk, reserving, however, the right of buying back the powers thus granted, together with the prop-

erty accumulated, for a compensation to be agreed upon. In 1880 the *Société Générale des Téléphones* was incorporated. The franchise granted would have come to an end September 8, 1884, but it was extended for a further period of five years.

On July 12, 1882, the government obtained an appropriation of 250,000 francs to establish lines at Rheims, Roubaix, Pourcing, Troyes, Nancy, etc., where the Société Générale des Téléphones was not operating. After some months of operation the government declared that it was realizing profits at a rate 50 per cent. lower than that of the company. September 8, 1889, that is to say the date of the expiration of the franchise, the government established the telephone monopoly.

The purchase of the company's equipment had been authorized by the law of July 16, 1889. The government offered 5,068,836 francs, but by an order dated May, 1896, the Council of State rendered judgment, ordering the government to pay 9,313,000 francs, which, with interest, ultimately increased to 11,334,-338 francs, or 126 per cent. more than the original estimate.

M. Sembat says:

"In replacing private enterprise the state had no intention of borrowing its methods. This was announced in the very beginning. The first act of the government furnished a joyful augury for the future. It lowered the rates on subscribers' contracts. It was impossible to know whether the government was going to sell service at a loss. It fixed its rate at a venture. The desire was to confer a boon rather than to launch a great industry."

Thus in the very beginning the actual price of the purchase exceeded the estimate by 126 per cent., and rates were "fixed at a venture."

As a matter of fact, the extension of time granted the Société Générale des Téléphones had been far too short. No industry can establish itself and pay off its capital in five years. Therefore, when the government replaced the company, the latter's equipment was behind the times. In certain cases the intervention of four operators was necessary to bring about one connection. In America and in several Belgian cities multiple switchboards, so named because the terminal point of all subscribers' lines wired to the same exchange is repeated before each operator, were already in use. A single employee sufficed to connect two subscribers on the same switchboard. The French department had experimented with this system at the Wagram exchange.

"But," says M. Steeg, in his report on the budget of 1907, "despite the promised advantages, for want of money, time and space, the first installations of this new type have been greatly limited. Besides, the work has been done rather under the pressure of immediate needs than in the execution of a comprehensive plan."

Other difficulties also arose. The operators were unprepared for the new system. The plan of calling subscribers by number, as required by the multiple switchboard, instead of calling them by name, as was the custom under the old system, bothered the operators. It was finally decided to decrease the number of exchanges and to establish three large ones on the right bank of the Seine.

Now a business man under existing conditions would have sought the most commodious site in order to establish his principal exchange. But not so the government. The convenience of the chief telephone exchange was subordinated to the needs of the Postoffice. Although constructed only ten years before, the Postoffice building was completely outgrown. The officials did not know where to keep the mail wagons. The opportunity afforded by the establishment of the new exchange was too good to be lost. The Rue de Gutenberg—a short thoroughfare—was condemned and closed, and a telephone building following the line of the curb constructed. The lower floor of the new building, however, was given over as a shelter for the mail wagons.

And here is another curious point! The Telephone department had been anxious to do away with the old widely scattered exchanges. But, after these had been concentrated in the same building, connections were made by the same methods as had prevailed when the offices were situated in different buildings.

As a consequence, and since it was necessary to carry interurban service lines and the lines of three bureaus into the same place, the department was forced to enlarge the conduit which runs from the Rue du Louvre to the Rue Richer through the Rue Montmartre, at great expense and in unusual proportions. Finally " a special conduit is now required in the Rue Etienne-Marcel, already over encumbered, the present ducts being incapable of containing the too numerous cables that must pass in this direction."

The defects of such service are easily seen. Con-

centration in the same building of bureaus to all intents and purposes separate has made necessary the relocation of a vast mass of wires involving in its turn other undertakings on an unnecessarily vast scale. As the whole system, the very foundations of which are false, may have to be renewed many times, it ought surely to be renounced.

In 1900 a commission was appointed to outline a general course of action. It discussed the question until 1905. That year two switchboards, each for 5,000 subscribers, were placed in the Gutenberg exchange. They were not ready to use in 1907. The switchboard for 5,000 subscribers, subsequently ordered for the Passy exchange, has not yet been installed, as is the case also with several other switchboards ordered for a number of other exchanges. Considerable sums have been spent. They have remained unproductive, and the subscribers are still waiting.

In 1906 a contractor made the department a proposition to replace the entire apparatus of the Paris system by the common battery system, adopted by all the great American companies, for 20,000,000 francs ($3,800,000). A committee on telephone equipment was appointed for the purpose of examining into this proposition, "which its contract form," said M. Steeg, "caused to be instantly rejected." M. Steeg mentions the rejection as self-explanatory. I confess that I do not understand his point of view. In the interest of the state, whenever it is possible, necessary work should be done by a contractor. Such a proceeding would ensure a triple advantage, viz.: a definite limit to the sums to be appropriated, control on the part of

the state, instead of exorbitant expense and abuses of operation and, finally, responsibility of the contractor.

However, the committee, owing chiefly to the persistence of M. Dennery, state engineer, who had seen the common battery system working in the United States, ultimately concluded to adopt it. The necessary expense of equipping the Paris system, general and private exchanges, was estimated at 4,000,000 francs ($760,000).

At last the Telephone department had a definite plan of action. But no proof of any spirit of initiative had been given; for it was only introducing a system already employed for several years by private companies in the United States.

But, at any rate, the new program is at least to be carried out expeditiously? M. Steeg answers skeptically: "We dare not promise it." After which he proceeds to gild the pill with the following glowing rhetoric: "Like scientific discoveries, industrial improvements may at any moment overturn all estimates. Therefore the department must not anticipate the future too boldly."

M. Steeg may be reassured! The department need never be afraid of anticipating the future. It is already too far behind the times for that! Meanwhile telephone subscribers are begging the department to conquer their fear of too boldly anticipating future progress at least long enough to give them a reasonably speedy connection when they have summoned the courage to ask for one.

The fire at the Gutenberg exchange gave the de-

partment another much-needed excuse for making haste slowly.

To-day we are enjoying in Paris the common battery system. Two subscribers, connected on different exchanges, *can* be connected in less than thirty seconds. We never complain, however, if we succeed in getting our party within three minutes, a certain proof that the Frenchman is the easiest man in the world to govern.

Speaking of the Telegraph Department, M. Dalimier says:[1]

"The French government wears itself out in sterile investigations. When one has had some little contact with the many-sided machinery of this complicated system, he is struck by the lack of coöperation among the various departments. For example, a very marked duality is evident between the technical and operating services. Although theoretically united under the same management, each is conducted like an autonomous department.

"The technical service appears to have made it a rule, a point of honor, in fact, to ignore the needs of the operating service. Apparatus is furnished which renders effective service very difficult and prevents the carrying out of important changes. With more up-to-date equipment, from a practical point of view, possibly a flat rate system of subscribers' schedules might already have been attempted in certain cities."

In the eighteenth century Voltaire reproached the French government with not occupying itself sufficiently with the question of the conservation of its

[1] Report on the budget of 1912.

resources. If we may judge by the following passage, also from the report of M. Dalimier, this bad habit has not yet been overcome:

"We can bear witness that the underground urban system of Paris is in a deplorable condition. It is given neither supervision nor methodical attention. Repairs are made in haste and without proper oversight. The currents passing through electrical conductors are intercepted in the passage and diverted from their cables without any plan and without technical precautions. Then the cables themselves are punctured, perforated, and crushed in the conduits without any attention being paid to the matter. Entire cables have been abandoned. Certain cables have been dug up or have disappeared under rubbish without any one having any recollection of their being there. In this particular service negligence has reached incredible proportions."

M. Dalimier then quotes a memorandum of the department, and concludes:

"To sum up, it is acknowledged that the lines are inspected only when they cease to operate, and that, on the other hand, when it is expedient for the force to display exceptional zeal, it is enough for one section of a conductor to be regarded as doubtful in order to replace the whole line with a new one!"

Not only does the department neglect one system but it can completely forget others still more neglected. Following the meeting of the Flood Commission a bill was prepared, including among other very urgent suggestions, the construction of cables with paper insulation and a sufficient number of conductors along the

fortifications of Paris. The expense was estimated at 2,000,000 francs. Fortunately, just at this moment, an entire network with rubber insulation and cast-iron conduits was discovered, which had been in place for more than forty years. It was found to be in a state of remarkable preservation, in spite of its complete abandonment. Experts declared that, after slight repairs, and at a cost of scarcely 50,000 francs ($9,500) it could be put in perfect condition. The technical department had utterly forgotten its existence. The inspector of the long-distance underground line connected with the operating service discovered it and put a stop to further discussion of the bill.

The workmen employed in the National Printing Office complain that the shops in the Rue Vieille-du-Temple are in reality so many prisons, and that, deprived of air and light, they are working under the worst possible conditions. A reporter sent out by the *Matin*[1] gives the following description of these shops:

"Under the escort of M. Clavel, head superintendent, I inspected the workshops of the National Printing Office, rummaging into the most obscure corners. I went from the cellars to the roofs. I walked miles through dark passages. I ascended and descended millions of steps. I saw composing-rooms where artists executed typographic masterpieces. I saw type foundries where, amid the poisonous vapors of melted lead, without air and without light, half naked men were making use of processes and equipment that private industry abandoned a quarter of a century ago. I saw old and dilapidated printing machines under constant repair, and necessitat-

[1] *Le Matin*, January 28, 1912.

ing more outlay in the way of labor and expense than new and modern machines would require. I inspected stereotyping rooms utterly barren of the improvements introduced of late years. I saw lithographing, photographing and engraving rooms, rooms where they were stitching, binding, folding, fastening. I saw the utter disorder of those cemeteries where they bury the "forms" which are saved either because they can be used again or because there are not enough workmen to arrange them properly in the lettered cases provided for that purpose. I saw the useless and unused reserve supply of new type, a capital of several millions, piled up only to justify the employment of too large a number of foundry workers."

In 1908 the popular brands of tobacco gave out.[1] Why?

When a good business man sees his business increasing he is careful to devote a part of his profits to the improvement of his methods of production. The Tobacco department was able to show, in 1902, 421,000,000 francs in gross receipts; in 1903, 435,000,000; in 1904, 448,000,000 francs. But the general budget was short. It therefore absorbed the whole sum, instead of setting something aside to improve the equipment of this special fiscal monopoly. Just at this time, and when the consumption of tobacco was steadily increasing, the working hours of the laborers in the tobacco factories were reduced from 10 to 9. As a result, there was a 10 per cent. loss of production. The equipment was in no position to offset this labor loss; hence the deficiency.

[1] See *Le Client.*

In 1905 the department obtained some hundreds of thousands of francs from the budgets of 1906 and 1907, to improve its equipment and factory buildings. These appropriations, however, were tardy and insufficient.

I do not mean to imply that the officials of the Tobacco department had not foreseen the necessity for this work, but there was no way of forcing the minister of Finance to grant them the necessary loans in time to be of service. Administrative delays are notorious, and individuals who rebel against them are sternly taught their place.

The reconstruction of the J. B. Say school has lasted (1912) more than twenty years. The construction of the school of industrial physics and chemistry (l'École de Physique et Chimie Industrielles), in the Rue Vauquelin, was decided upon in 1898, but the first order was not signed until 1908.

That misinformation as to actual conditions prevails in government administration is generally acknowledged. On May 17, 1912, the French ministry of Agriculture—in its estimate of the reforms which would be brought about by a lowering of the price of wheat —made a miscalculation of 5,000,000 cwt.

In 1909 the Naval Intelligence department caused a panic in Great Britain by announcing that Germany would have 13 dreadnoughts in 1911 and 20 in 1912. Mr. Balfour aggravated these forecasts by announcing that Germany would have 17 dreadnoughts in 1911 and 20 in 1912. As a matter of fact, they will have only 13 in 1913.

M. Perrissoud, reporter of the state railway budget of France, has declared that "the state ought to be a model employer and give to the taxpayers the largest opportunities of regulation."

The taxpayers cannot control government undertakings directly; they can only regulate conditions through their representatives.

The report of Emmanuel Brousse, on the regulation of the budget of 1907, and of Louis Marin, on the budget of the ministry of Foreign Affairs for the present fiscal year, are sufficient evidence of the difficulties experienced in attempting parliamentary regulation.

The more functions exercised by the state, the greater the effort required to control its various activities.

CHAPTER IV

OFFICIAL CONSERVATISM

Industrial Progress Due to Individuals Not to Governments.—Official Conservatism.—Dread of Innovation.—Departmental Drinking Water.—The Grinding Stones of the Bureau of Public Charities.—Telephones.—Private and Public Management.—Causes of the Backwardness of the Electric Industry in Great Britain.—Tools in the Workshops of the Ministry of War.—Labor Economy.—Work for the Workers and Not for the Service.

Industrial progress is due to individuals, not to governments. No state discovered gravitation, and, if humanity had waited for governments to apply steam and electricity to our daily needs, we should have neither railways, telephones, nor telegraphs.

The official is naturally a conservative, and every innovation frightens him, because he is never sure how it will turn out. If he is progressive he is thwarted by the inertia of the organization of which he is a member. Should we go so far as to imagine the administrative group to which he belongs as being other than inhibitive and inert other groups would still have to be considered. In any case, it is always necessary to obtain appropriations or special authority beforehand in order to establish any public undertaking. By insisting upon changes he must assume some

risk, even if it is only a burden of responsibility, and, as the personal hazards to be run are great, and the personal profit contingent or insignificant, things are generally left as they are.

This administrative lethargy is found even in those government or municipal enterprises which ought to be most progressive.

For example, the ministry of Public Works in France is entrusted with the supervision of the Paris water works. When I became minister in 1889 I found, to my great astonishment, that the minister and the employees of the bureau had nothing to drink but the water of the Seine. According to the *Matin*, of March 20, 1906, the minister of the Interior, whose department includes that of Sanitation, was drinking Seine water at that date. The Bureau of Public Charities of Paris is still using grinding stones; it is considering transforming them into cylinders. Such facts as these, however, never hinder public officials from making complimentary speeches and reports extolling the foresight, solicitude and competence of the government.

The Swiss Federal railways have always been opposed to the creation of new lines which might involve competition. In fact, the department has demanded that every new franchise be submitted to it. Its decision was unfavorable to the Loetschberg and Moutiers-Longeau line, which is to bring the canton of Bern into direct connection with the Simplon tunnel. Although the canton of Bern has been able to overcome this opposition, weaker cantons may not be able to do so.

I have already outlined the rivalry of the Prussian railways and the waterways.

The different state departments cherish a certain *esprit de corps,* and each considers as an attempt made against itself any proposition, however useful, which might interfere with its own development.

In his book entitled *Public Ownership of Telephones on the Continent of Europe,*[1] A. N. Holcombe states that, except in Germany and Switzerland, the telephone has been introduced by private enterprise throughout all Europe. To-day, except in Denmark and Spain, this practice has been given up. A government having centralized the administration of the telegraph could not consistently permit the telephone to remain in the hands of private interests. When the telephone first appeared it was universally opposed by the conservative departments in charge of the public telegraph service. They saw in it a competitor whose influence must be counteracted. Later, as soon as it was perceived that the new utility would survive such treatment, nearly every government decided to absorb it.

When the telephone in its turn had become a government service it also systematically opposed the development of all other electrical industries, especially those using currents at high frequency, in order to protect their weaker current systems. Technical progress would assuredly have been more rapid under a system of competition. On the whole, Mr. Holcombe is favorably impressed with the organization of the German telephone service, but he states that in 1902

[1] Howard Economic Studies, Vol. 6.

the telephones were four times more numerous in the United States than in Germany.

In Great Britain, in 1880, the telephone was legally declared to be a telegraph, and ultimately it became a monopoly under the postmaster-general. In 1911 there were only 644,000 telephones in use in the United Kingdom, while if the proportion had been the same as that of the United States it would have had 3,000,000.[1]

At the annual dinner of the Institute of Electrical Engineers, February 2, 1911, its president, S. Z. Ferranti, said:

"We shall never know what the municipalization of electrical undertakings has cost us. It has retarded progress and is largely responsible for the backwardness of the electrical industry in Great Britain."[2]

In reporting the 1913 budget of the French ministry of War the Secretary, M. Benzet, writes:

"I have observed that the equipment is everywhere inferior to that of corresponding private undertakings, and, when I ask the superintendents, 'Why do you not make use of such or such an up-to-date machine in general use abroad as well as in France; or else, as those you have are good enough machines although they are fewer, why not multiply them since they yield such excellent results?' I invariably receive the same answer: 'We cannot waste our time over the question of equipment

[1] Communication of Laws Webb to the London Chamber of Commerce, *Morning Post*, February 18, 1911.

[2] The *Electrical Review*, February 10, 1911.

because, as a matter of fact, that question never comes up in army and navy institutions.'

"And, gentlemen, this fact is only too evident; for, in getting to the bottom of things, I have found we vote appropriations for army and navy establishments without even counting them. We pour out the savings of the entire nation for the national defense to ensure the production of munitions of war, and yet it is only at the close of the fiscal year, if there is any money left, that we even think of equipment.

"Here is industrial inconsistency for you. A nation that pretends to be a manufacturer begins with production and it is not until later that it takes up the question of the efficiency of its indispensable machinery. It is scarcely credible that conditions such as those which I am about to describe can actually be rife at the present day.

"In the existing system of operation, when production is heavy there is a large demand for machinery; but this is also the time when attention to equipment can least be spared, because when production is heavy there is nothing left at the end of the year to devote to equipment.

"On the other hand, when production begins to slacken and, consequently, manual labor is in little demand and it might be possible to employ it in repairs and constructing machinery, then, according to the regulations in vogue for many years, the working force must be reduced."

The Secretary afterward strove to prove that the "distressing delays" in the work of the army and navy establishments were due in large measure to extreme bureaucratic centralization. He then explained in detail the complete cycle through which a

single order of the government must pass, and concluded:

"I was anxious to discover how much time would be required to fill the simplest order. I found that no order could be executed in less than 95 days and in three-quarters of the cases the work would require 155 days. If, by an unfortunate chance, however, there is the smallest modification necessary, eight months, ten months, and even more are required.

"The result, as may be readily seen, is, in the first place, to cause a serious interruption in the service. I have known cases where establishments have had to hold up pressing orders to get the necessary authority from the minister for the funds required to carry out the order and deliver it before it would be too late.

"I have already spoken of the high cost of such work. This is due to the fact that the superintendents, knowing that there will be a considerable delay before they can obtain the necessary authority, seek to make up for lost time as far as possible by shortening the time of delivery."

As for the administration of the telegraph in France this is what I find in the Dalimier report:

"After much hesitation the department has decided to adopt the installation of a telegraph 'multiple.' The first appropriations were made in the 1911 budget, but the preliminary investigations could not have been very thorough, since, despite the stations established since 1903 in the cities above mentioned, and in which the 'multiple' system is in operation, it was necessary, in July, 1911, to appoint technical experts to examine these systems with a view to choosing a system adapted to the needs of Paris."

Protectionists and Socialists are forever harping on the old strain that governments and municipalities "ought to provide work for workers." The enterprises resulting from such efforts, far from bringing about labor economies, must always increase labor expenses. Among the excuses assigned for shorter hours of work is found the argument that if each worker does only half duty there will be work for two workers. Then, not only must the working hours be short, but there must be no over-production during the time spent by the workmen in factory or shop. We encounter everywhere protestations against piece-work and demands for work by the hour "at which nobody need kill himself." And not only must each man profit in some measure by the right to be lazy, proclaimed by Lafargue, but if he does not do the work for which he is paid he is accomplishing a duty of high social consequence by leaving work for his comrades.

If the superintendent of the workshop wishes to introduce a machine which could do the work of four workmen he is accused of taking the work from the laborer instead of giving it to him. Consequently he immediately antagonizes all the labor organizations and all the municipal or government employees. He is starving the people. He is neglecting the fundamental duty of government and municipal undertakings. He is a traitor. And, as an official must be a hero in order to face all this wrath, he is generally careful not to provoke it. If he learns that somewhere a machine is doing the work that he succeeds in getting done only by heavy expenditure for labor, he is

careful not to ask for it. If he can he will be ignorant that such a machine exists.

The material and moral depression evident in every state and city undertaking is easily explicable with the above facts in mind, and I have frequently received extraordinary confidences on this subject.

The Socialist is accustomed to declare that he and his comrades are not enemies of progress, and, in spite of the facts, he will treat as calumniators those who accuse him of it. He declares that Socialists are not hostile to new processes, nor to new machinery, except when they put the workmen out of work and do more work at less expense. It follows that he accepts the new processes and the new machinery on condition that no economy is involved in their use.[1]

But then, what is the use?

[1] See Yves Guyot, *Science Économique*, 4th edition, page 230.

CHAPTER V

LABOR

1. "The Government a Model Employer."—Raising Salaries, Reducing Hours of Labor, Lessening Returns.
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15. Rules for the Model Government Employer.

1. "The government ought to prove itself a model for all other employers." Such is the stereotyped phrase in general circulation in Socialist circles, and all those who repeat the phrase mean by it that the state shall raise wages, shorten hours of work, and be satisfied with a smaller return from labor.

As a matter of fact, this conception of the model state is one of a robbery of the whole body of taxpayers for the sake of the minority who will profit by it. Yet many taxpayers seem resigned to having such a conception realized at their expense, and the more democratic the state the more imperative are the demands of privileged classes, and the more chance there is of their ultimate triumph.

2. The least of the claims of the average employee consists in demanding an increase of workers for the same amount of work. This is one way of providing work for workers, and we may be certain that the latest comers will never close the door.

We have seen how such labor increases work out in the case of the government railways.

In Australia, with the Labor party in power, the number of employees is still increasing. On the first of January, 1911, the Australian Federal Government had 15,120 employees, receiving £2,098,500 in wages; but on January 1, 1912, they aggregated 16,200, with salaries amounting to £2,720,000.

3. The general report of Louis Dausset on the municipal budget of Paris for 1912 contains most interesting information concerning the burden imposed upon the budget of the city and upon the budgets of the various local governments by the growing exigencies of their employees.

The table given below shows the considerable increase in the average salaries of Parisian municipal workers between 1890 and 1912:

	1890	1908	1912
The effective working force of the city..	8,152	10,972	12,131
Expenditures (frs.).	10,941,234	22,395,565	27,259,541
Average salary (frs.)	1,342	2,043	2,289

Or, in other words, an increase of 70 per cent. in 22 years.

It should be well understood, moreover, that the net cost of the various municipal activities has also considerably increased. "It appears, in fact," says

M. Dausset, in a memorandum coming to us from the Public Highways Service, "that the net cost per square meter for street cleaning has risen from 0 franc 381 in 1893, to 0 franc 417 in 1896, 0 franc 476 in 1902, 0 franc 513 in 1908, 0 franc 557 in 1912. This last increase, however, should be ascribed to improvement in equipment. The increase in labor expenses shown by the budget of 1912, over that of 1911, amounts to more than 5,000,000 francs for the municipal employees, properly so called.

From 1908 to 1912 the concessions granted the employees out of municipal funds have called for an expenditure of 16,625,000 francs, of which 3,976,875 francs went to the working force connected with the prefecture of the Seine; 4,789,794 francs to the employees of the gas works, and 473,193 francs to the various electrical plants.

Moreover, bills passed up to the present have pledged the future to supplemental expenditures of about 3,000,000 francs, which will insure to municipal laborers, who constitute the most numerous class of municipal employees, an average salary of 2,356 francs.

Now street sweeping has thus far been a monopoly of unskilled labor. But what if it should occur to skilled workers—jewelers, for example—lured by the superior advantages enjoyed by the gentlemen of the broom, to take their place? What then would become of the street sweepers?

As a matter of fact and as a natural consequence of its economic unsoundness, this increase in salary, far from being an advantage to those for whose benefit

the Municipal Council designed it, has actually resulted in a reclassification of labor downward.

At the same time it is taking workers away from trades in which they have passed years of apprenticeship. The inevitable result of such labor conditions is only too well illustrated by the industrial disturbances at Sheffield.

Then the condition of the municipal employee of Paris has been improved, not only by an increase in his salary, but also by a decrease in his hours of work. M. Dausset says:

"In our desire to improve the condition of municipal employees we have sometimes been reproached with having lost sight of the general interest as well as the most urgent needs of the public service.

"This criticism has been especially directed toward the street cleaning service. It has been said that, while the work to be done has notably increased, the number of working days is rapidly diminishing, following philanthropic measures passed one after the other in favor of the employees. Full pay for two days' rest a month; sick days; an annual vacation of 10 days, lately brought to 12; noonday rest, etc. The laborer in the street cleaning department who in 1893 furnished annually 3,410 hours' work, in 1896 furnished only 3,250; 3,230 in 1908; and 2,940 in 1909, or, in 1908-1909, a decrease of 9.5 per cent."

Now when a state or a municipality contracts with a middleman for any kind of service it should have but one thought in mind: *net cost and quality of the service.*

It ought to aim, above all, at economy; because all

favors and privileges granted by statesmen or administrators are paid for by the taxpayers.

The Municipal Council of Paris recently withdrew entirely from the direct administration of its gas works, but it subsequently abandoned its principle of non-interference when it agreed with the operating gas company to introduce into the contract between itself and the said company the alliance of employees of the gas works with municipal employees.

Here is the result of this agreement, according to M. Dausset's report:

"Whereas before the alliance the salaries of the gas employees varied from 1,200 to 3,300 francs, immediately after it the average salary of the two most important classes of employees in this industry, viz., clerical workers and inspectors, rose to 3,347 francs following automatic promotion into the first employee class of a very large number of employees by reason of their length of service.

"Collectors saw their maximum salary rise from 1,800 francs to 3,000 francs and their commission from 50 to 100 francs.

"The incessant increase of expenditures under the head of employees exceeds the economies resulting from the improvements introduced into the manufacture of gas. Unfortunately, new excuses for further expenditures are constantly arising, and dangerous precedents are being established without any corresponding decrease in the number of claims. No sooner is one claim satisfied than another bobs up, the more urgent and the more frequent in proportion to the amount it is going to cost the city.

"The labor expenses which in 1908 were 30,819,595

fr. 14, amounted in the following year to 31,726,165 fr. 22, and, in 1910, to 33,382,850 fr. 30, out of which 11,439,896 fr. 15 went to salaried employees and 21,942,954 fr. 15 to laborers.

"An estimate may be made for the current year (1911) amounting to a sum total of 34,525,000 fr., out of which 12,055,000 fr. will go to employees and 22,470,000 fr. to laborers.

"The increase, according to the report of 1910, is thus 1,142,149 fr. 70, divided as follows:

	Fr.	C.
Employees	615,103	85
Laborers	527,045	85
Total	1,142,149	70

"Now, on December 31, 1910, the effective working force amounted to 3,076 employees and 9,354 laborers. But on November 1, 1911, this number had shrunk to 3,086 employees and 9,195 laborers, a net decrease of 149 workers. On the other hand, it must be remembered that the working force will again increase, as it does each year from November to December 31, through the enlistment of extra men, and in proportion to the amount of manufacturing undertaken.

"In 1905, the last year of operation of the Paris gas company, the labor expenses amounted to only 24,038,951 fr. 59. Therefore, in 6 years, and excluding supplementary pension charges, there has been an increase of more than 10,000,000 fr., by which gas employees of all classes have benefited. *While the condition of our budget has not as yet permitted us to realize the decrease in the cost of gas, by which the whole body of consumers will profit, the new privileges which we have awarded to the employees represent more than 2 centimes per cubic meter of gas manufactured. In addition to that we give out-*

right each year to the gas employees a profit of twelve additional centimes."

"At this rate the employees of the gas department will end by cutting out all profit," says M. Caron, former president of the Municipal Council.[1]

In 1912 the employees of the gas company complained to the Municipal Council of Paris. The foremen demanded an indemnity for delay in promotion as guaranteed by their alliance with municipal employees. Whereupon the administration and the Municipal Council promptly recanted. M. Dausset says in his report: [2]

"It is an erroneous interpretation of the agreement entered into with the gas company to hold that it has become completely identified with the public service of the city in all the details of its internal organization and functions. The gas company is, of course, expected to conform to the wage or salary scale, and to the regulations governing pensions, vacations, working conditions, etc., in force in the municipal service. Nevertheless, each department maintains its separate organization and its own proper functions. Irregular promotions may occur and the necessities of the service can bring about the establishment of new grades in one department, the creation of which would not be justified in the other. Although the prefect of the Seine has consented to a certain number of high-salaried positions for the benefit of the employees of the gas company, he has done so only from a sentiment of good feeling toward a personnel which merits our sympathies; but this measure ought not

[1] Société d'Economie Politique. See *Journal des Economistes*, December, 1911.

[2] *Conseil Municipal de Paris*, 1912, No. 46.

to be considered as a necessary consequence of the amalgamation."

That these observations of M. Dausset are perfectly reasonable is evident enough. But they necessarily undermine the system of amalgamation by proving that it cannot be complete. Further on he says:

"We do not believe that there is any reason for making a new extension of the system of amalgamation in favor of chauffeurs. The same thing may be said in the case of the bag makers who are demanding to be amalgamated with the street sweepers."

So far as the waste collectors are concerned the committee refused them an increase of salary. However, since the cash clerks of the city were receiving a commission of 300 francs, while that of the collectors was only 100 francs, "there is a manifest injustice here," says the report; and the administration is recommended to raise the compensation of the latter to the higher figure.

4. In all government service there are both direct and indirect salaries.

To all appearances the Navy pays laborers in the navy yards low salaries: from 3 francs 80 to 4 francs, compared with 5 francs and above in the industry at large. But the difference, says the report of the Committee on Labor Accounts, is very much less when we consider the various advantages enjoyed by the employees of the Navy—pensions, direct and indirect,

insurance against nonemployment, treatment at hospitals or at home, etc.

As a basis of comparison M. Rousseau takes one day's work on the *Jean Bart*. In this way he obtains a standard wage of 4 francs for a working day of 8 hours; apprentices included, foremen not included. This makes 5 francs 15 for a ten-hour day; more than the average salary in private undertakings. Nor does this figure include either pensions or vacations at full pay (which increase the annual salary by 4 per cent.), sick benefits, pay during dull seasons, or "even the liberal allowances which may be granted by any minister, such as pay without corresponding work for two days at Christmas and New Year's, or, in round figures, 440,000 francs, of which a simple ministerial signature can relieve the treasury."

The effect produced upon the cost of naval construction in our navy yards by the shortening of the working day, as well as by vacations at full pay, for which the budget of 1911 granted the first appropriation, is shown by the following table, which estimates the cost of the work on the *Jean Bart*, on the basis of a 9½-hour day, an 8-hour day, and a 7-hour 40-minute day, the latter corresponding to an 8-hour day shortened by the fraction 1/24, representing 15 days of vacation with pay.

The Committee on Labor Accounts declares that "the new institutions in the Navy, by reason of the 8-hour day, find themselves at a disadvantage, compared with the industry at large, both from the point of view of rapidity of construction and net cost."

The salary remaining the same for a day of	9 hrs. 30 min.	8 hours	7 hrs. 40 min.
The construction of the *Jean Bart* would require:			
Days	1,515,790	1,800,000	1,880,000
Or in money (francs)	6,230,000	7,400,000	7,727,000
The minimum pension (25 years of service) is obtained by an active service during:			
Hours	71,250	60,000	57,450
The construction of the *Jean Bart* gives pension rights to:			
Men	202	240	250
The relative annual charge resulting is:			
Francs	121,200	144,000	150,000

M. Cuvinot, who reported on the Navy budget in the Senate, has estimated the loss resulting from the shortening of the working day to 8 hours at 4,500,000 francs.

The employee of the navy yards knows how to make profitable use of his leisure hours. In his *Voyage Revolutionnaire,* M. Griffuelhe declares that by beginning work in the morning at 7 o'clock and quitting at 5, he is "one of those employees who increase their salaries by working a couple of hours more at some employment in the city. A number work in barber shops, others are carpenters, shoemakers, etc." The work of these government employees thus constitutes competition of a privileged class against the workers employed by private industry.

Moreover, I have been told that the laborer in the navy yard husbands his strength during the day in

order to be able to make better use of his leisure hours in the city.

5. The reinstatement of all railway employees after the recent railway strike has confirmed the conviction that they are the masters, and that it is sufficient for them to threaten in order to obtain what they want. Among other things, they have obtained a system of regular promotion, which makes it easy for them to dispense with all energy and zeal.

Moreover, as if in order to encourage further claims, M. Cheron has taken care to make a comparative table of the condition of the railway employees before and after the purchase.

	Western Company (1908)	Government (1912)
Deficits from operation	25,822,000 fr.	83,673,000 fr.

The increase in operating costs is 72,304,000 francs. The employees are responsible for 52,296,000 francs of it. This increase was prophesied by the opponents of the purchase.

We have just seen how, at the very time it was proving its inability to maintain order or to keep its employees at work in the arsenals of the Navy, the government must needs assume the responsibility of directing more than 50,000 railway employees. Moreover, as a result of this increase in the number of government employees, the number of pensions has likewise increased. By lowering the age limit, the same result has been effected. The same public utility or any other undertaking must pay each employee not only his salary but two or three pensions beside. Thus we are

establishing a class of semi-independent gentlemen, who live at the expense of the taxpayer, who often, thanks to the pension which they enjoy, make dangerous and underbidding competitors of free labor.

In his preliminary work on the law of June 9, 1853, M. Stourm, councillor of state and government commissioner, defined active service as "a day and night service which exposes those engaged in it to fatigues, diseases and dangers." [1] The law of August 17, 1876, classes among those in "active service" inspectors, superintendents, and teachers employed in the primary normal schools, public school teachers, and matrons of orphan asylums.

The employees connected with the prefecture of the Seine were anxious to obtain the pension proportioned to the time of service, provided for by Article 9 of the law of July 21, 1909, and given to employees of the railways, who "quit the service either voluntarily or for any other cause, if they have been affiliated with it more than 15 years." [2]

The Municipal Council, however, declined to be so generous. It reduced by a half the length of service pension of the employee who had been dismissed, and it refused to the official who had left the service all right to a pension.

Under the above conditions the police were granted pensions for life, duly proportioned to their term of

[1] *Moniteur*, May 17, 1853.

[2] Yves Guyot, *Les Chemins de Fer et la Grève*, page 149.

service. The sum amounted to 1,300,000 francs in 1911. In regard to active service the rating is 50 years of age and 10 years of service. The figure was fixed at 10 years in order to help out former non-commissioned officers admitted to the public service and who hold four-fifths of the positions available.

Employees and workmen attached to the government have but one thought, to hunt up excuses and methods to "improve their situation." Among the excuses is a very simple one, ready to hand for every occasion, and having a certain degree of justice in it —equal work, equal wages. Such or such an employee, in such and such a service, receives such and such wages and such and such a pension; why not I?

Before the purchase of the Western railway the opponents of the measure said to the government: The employees and laborers on the lines already belonging to the state are receiving salaries and pensions greater than those of most of your other employees, and yet you would increase their number. The employees of the Customs, the Postoffice, the police and other public departments will demand alliance. What will your answer be? [1]

I note in the *Journal Officiel,* of July 27, a series of questions put by Patureau-Mirand, one of the deputies, to the minister of Finance, in which this idea of alliance was constantly referred to. Here are two of these questions:

M. Patureau Mirand asked the minister of Finance whether he intended to incorporate in his budget a

[1] See Yves Guyot, *Les Chemins de Fer et la Grève,* page 50.

plan for raising by a tenth the wages or salary of the deceased, with a minimum of 250 francs at Paris, and 150 francs in the provinces, as is done in the case of the employees of the state railways, who are receiving a wage less than 4,000 francs; and an allowance for burial expenses to customs officials and state factory workers who die in active service—an allowance which would amount to only 60 francs in the first case and 50 francs in the second.

"Answer—In the state factories the allowance of 60 francs (to subordinate officials) or 50 francs (to laborers) is granted not only on the occasion of the death of employees in active service, but also at the death of employees who have left the service. In this latter respect the employees of state manufacturing enterprises are treated more generously than those of the state railways.

"Because of the excessive expense which would result from such a measure, it is apparently not possible to increase the figure to the sum demanded. In any case, the question would have to be made the subject of an exhaustive investigation with respect to all the trading undertakings of the state.

"Answer of the minister of Finance to question number 2,116 put by M. Patureau-Mirand, deputy, July 12, 1912. M. Patureau-Mirand asked the minister of Finance whether he intended to provide in his next budget for a grant having a retroactive effect in favor of subordinate officials and employees of government manufacturing enterprises who have been granted medals of honor, a special bounty of 100 francs, as is done in the case of employees on the state railways on whom the medal of honor has been conferred.

"Answer—The question of the awarding of bounties to government inspectors, and employees granted the medal of honor for efficient work, is of interest not only to the employees of the state manufacturing enterprises, but also to those connected with the other government trading undertakings. Therefore it cannot be decided except after an exhaustive study tending to determine the financial consequences which would result.

"In any event, there could be no question of granting a bounty with a retroactive effect to all employees upon whom the medal has been bestowed, because of the considerable burden that such a measure would entail upon the budget."

The minister of Finance confines himself to "trading undertakings." How about the employees of other state activities, viz.: the Customs, Direct Taxation, etc.? Will they not have the right to ask: "Why are we left out?"

Under the pressure of this feeling and the demands of labor associations, which have made more or less direct declarations of similar sentiments, a bill has been passed entailing still further expenditures for the improvement of the conditions of the employees of the Postoffice, Telegraph and Telephone department; the Bureau of Indirect Taxation, and the Customs office. These expenditures amount to 36,879,800 francs, 29,990,800 francs of which goes to the employees of the Postal, Telegraph and Telephone department, 4,650,000 francs to the employees of the Bureau of Indirect Taxes, and 2,239,000 francs to those of the Custom House.

The official explanation of the underlying motives inspiring this bill brings out the necessity of amalgamation for the sake of the officials and subordinates of the Postoffice; it adds that the expenses just quoted will have an immediate effect upon the financial condition of the indirect tax officials and of a part of the employees of the Custom House. It was to take effect October 1, 1912. The budget of 1913 will have to provide 7,000,000 francs of the total sum. The measure will be in full running order in 1916.

During the course of the Teachers' Congress, at Chambéry, M. Guist'hau anounced that he would not permit associations of teachers to become affiliated with the workers' exchange (Bourse du Travail), but, in lieu thereof, he promised to grant them concessions amounting to 40,000,000 francs to be distributed over a period of five years.

We may be certain that, after the appearance of the next budget, deputies will be demanding a shortening of the time for the distribution of the 77,000,000 francs.

7. The English trade unions complain that the municipalities make better conditions with employees than can be obtained from private enterprises. They consider the municipalities as dangerous competitors; for in Great Britain the members of the trade unions threaten to abandon them in order to become members of the Municipal Employees' Association. The Congress of Trade Unions of Liverpool passed a resolution on this matter in 1906.

Although the various public undertakings of Manchester have passed a resolution urging that the recommendations of municipal councillors be ignored, it is scarcely probable that the resolution has produced any effect. According to the investigation of The National Civic Federation of the United States all the municipal workers of Glasgow are recommended by municipal councillors.[1] Moreover, according to the report of the same investigators, throughout all Great Britain the municipal departments negotiate with the representatives of employees. As these latter are at one and the same time employees and electors, they thus become the masters of those whom they ought to obey; and, the more their number grows, the more concessions they exact at the expense of their fellow-citizens.

At West Ham the Municipal Council delayed the opening of its session in order that municipal employees, sewer diggers, street sweepers and teamsters, could attend and make known their opinions.

The National Union of Gas Workers and General Laborers, organized in 1889, represents the trade unions of the unskilled, that is to say, the manual laborers. It has had at its head such leaders as John Burns, Tom Mann, Ben Tillett, and Will Thorne. In 1890 it organized a strike at Manchester, and was successful; with the South Metropolitan Company it failed. It numbers 30,000 members, distributed among the various municipal gas undertakings, but its

[1] *Municipal and Private Operation of Public Utilties,* National Civic Federation, 1907.

membership also extends into various private enterprises which manufacture other products than gas.

Article 10 of its platform is worded as follows:

"To insure the sending of members of urban district councils as representatives on boards of guardians, in municipal bodies and in Parliament only on condition that they be partisans of public ownership of the means of production, distribution and exchange."

In 1892 the Union's general secretary, Will Thorne, was elected member of Parliament for West Ham. It has also had other electoral successes.

In 1905 Keir Hardie formed the Municipal Employees' Association. Its defenders say that it contains 2,000,000 members, a membership which would appear to be greatly exaggerated. But there are associated local unions.

8. The state does not pay higher salaries than private industry, except when it is compelled to do so through the weakness of state officials. In Prussia, where the electoral influence of the workers is feeble, the maximum salaries of the fiscal mines of the Saar district were, in 1908, much lower than those paid by private industry in the valleys of the Ruhr and of the Wurm; whereas the cost of living is practically the same in all these districts. According to a memorial addressed by the Association of Christian Miners to the Prussian ministry of Commerce and Industry, on the 22nd of October, the annual average of salaries has been decreased by reason of unemployment and reduction of wages.

	Salaries in the Saar District		Difference in Favor of La Ruhr		Difference in Favor of Wurm	
	Per Year	Per Workday	Per Year	Per Workday	Per Year	Per Workday
	Marks	Marks	Marks	Marks	Marks	Marks
1908	1,182	4.04	313	0.78	227	0.53
1909	1,136	3.96	214	0.59	208	0.49
1910	1,122	3.97	260	0.57	257	0.52
1911	570	4.02	136	0.63	114	0.59

The facts thus brought out were not denied in the Chamber of Deputies, but the minister answered that it was impossible to increase profits and salaries at the same time.

The miners also complained that salaries continued to decrease in face of the higher cost of food. Moreover, they brought up the interesting comparison that, in 1908, an increase of salary had been granted to the mine officials, while the miners were voted a substantial decrease.

9. As causes are practically identical in all countries, so effects are usually identical. Characteristic of this universality of cause and effect is the absence of productive energy in the work of the employees and laborers of national municipal undertakings.[1] From 1893 to 1902 the department of Public Works carried on a number of undertakings for the London County Council. Seventy-nine thousand pounds sterling was demanded over and above the original appropriation.

Two years afterward it was declared that these constructions have cost £40,000 more than would have been the case if they had been confided to a private

[1] See Raymond Boverat, *Le Socialisme en Angleterre.*

company. The differences in the estimates submitted varied from 11 to 40 per cent.[1]

Lord Avebury says: "A municipal workman lays 300 bricks during his day's work, where the American laborer will lay from 2,000 to 2,700."

An alderman of West Ham calls the system of construction under municipal direction: "The monopolizing of laziness."

A municipal councillor of the same municipality answered: "I care little about the taxes or about those who pay them. What I am interested in are my electors." [2]

Benjamin F. Welton, engineer in charge of the Bureau of Efficiency in New York, says of the productive energy of municipal workers: [3]

"Except to the few who have made a study of the subject, the extent of municipal inefficiency is almost unbelievable. Lacking the measure of efficiency in private enterprise, there can be no conception of the actual inefficiency of public service."

During the last five years Mr. Welton has been making investigations in several of the boroughs of New York City for the Commissioners of Accounts, and in Chicago for the Merriam Commission. At first the observations were secret; afterward a duplicate series was conducted openly. By comparing the earlier

[1] *The Accountant*, July 31, 1897.
[2] *The Times*, September 16, 1902.
[3] *Efficiency in City Government, Annals of the American Academy of Political and Social Science*, May, 1912, page 103.

observations, which would obviously indicate normal inefficiency, with those made later, it was ascertained that the loss of efficiency varies from 40 to 70 per cent. The loss of efficiency in the work done for a great municipality may therefore be estimated at about 50 per cent.

The City of New York pays $17,000,000 to its municipal workers. The inefficiency in the work, therefore, represents a loss of $8,500,000. Mr. Welton gives an excellent explanation of the causes of this inefficiency. They are the same everywhere. Measures are taken to guarantee control of expenditures and prevent favoritism, but without accomplishing anything in the end. From the point of view of employment, lists of preferred candidates play a deplorable rôle. Men have been employed in moments of pressure and afterward been discharged. These are naturally the least capable; but they are placed upon preferred lists and thus they ultimately come to form the real personnel.

No employee can be forced to render any service not previously contracted for. This is one way, of course, of combating favoritism, but a very inconvenient one. Moreover, the City of New York must accept as employees veteran soldiers and firemen.

The fiscal authorities demand economy, but they understand by the term not efficiency of service, but rather the conservation of funds. For some years in a certain number of cities—among others New York and Chicago—a form of control has been in operation known as the "segregated budget." Each item, whether of labor, of material, or of equipment, must

be charged to its particular fund. The total for each is fixed by the fiscal authorities, and no modification of it can be made without the authorization of the body which originally established the amounts. But action is paralyzed by too much control. This method of regulation fixes in advance the number of employees, the rate of their salaries by the day, and makes any increase in the number of employees, or any modification of their salaries, impossible without the censorship of the highest city officials. As a result, inefficiency is not penalized, nor is efficiency rewarded.

The municipality generally pays from 20 to 50 per cent. more for common labor than does the contractor. The work hours are shorter in consequence of measures passed either by the state or by the municipality for political ends.

Salaries are paid regularly, but without consideration for special skill or energy, thus inviting inefficiency. A capable workman or employee will naturally avoid a system in which capacity counts for little while political intervention is all powerful.

"When an employee," says Benjamin F. Welton, "can do what he likes and snap his fingers in the face of his superior if he is reprimanded, the efficiency of the entire force to which he belongs is gone. It is not uncommon for a foreman to suspend a laborer, request his discharge, and then be instructed to reinstate him and "leave him alone." After such a performance how can it be expected that the foreman can compel the obedience of the remainder of his force?"

The greatest amount of lost effort comes from wasting time.

There has been little attempt made to compare municipal with private labor productivity. Furthermore, municipal records are not to be depended upon. Foremen will exaggerate the favorable results, and, what is worse, conceal the losses.

The system of reports dealing with the financial needs of an enterprise are usually made out without consideration of the amount of work turned out. In fact, the reports do not even accurately reflect the conditions which they are expected to make clear. The connection between results and expenditure is almost never determined.

Among the suggested remedies for this state of affairs are to be found: An effective method of engaging employees; introduction of strict methods of discipline; great latitude in the discretionary power of the department concerned; permission to punish negligence and laziness and to reward zeal. But all these measures are incapable of fulfillment, because they provoke accusations of favoritism and probably would engender it.

Mr. Welton shows how economy can be brought about in an undertaking. In 1910 the Commissioner of Accounts, at the invitation of the Borough President of Manhattan, undertook the reorganization of a part of the maintenance force of the Bureau of Sewers. This service included 24 cleaners and 38 horses and carts, divided into 12 gangs of workmen, each with its own foreman. The cost was about $4 per cubic yard.

In a few months the number of gangs and foremen was reduced from 12 to 4, the cleaners from 24 to 16, the horses and carts from 38 to 14. Production was increased 100 per cent.; wages, 15 per cent.; the average cost per cubic yard was reduced from $4 to $1.45. The net result was an increase in efficiency of 275 per cent.

But can reforms giving similar results be made general? Many such cases do not destroy the viciousness inherent in the general system.

10. Emmanuel Brousse once declared that the French government did not adopt the system of overtime for extra work because such work was done during the ordinary working hours of the department.

One department head answered: "If I did not have premiums at my disposal, the work could not be done at all. The majority of the employees never come to the bureau, and those who do, being obliged to do the work of the others, must be indemnified for the extra work they do."

I know the danger of such generalizations. There are, in all the departments, men who work, but, as Bugeaud said, these are always the ones who commit suicide. Others, on the contrary, religiously practice the well-known commandment: "Never do to-day what another can do to-morrow."

And, not only is the work to be gotten out of a national or municipal employee or laborer below par, he has also all sorts of resources for reducing it to a

still lower grade. Among others we find the disease which has been called *laborophobia.*

Among the municipal employees of the City of Paris the number of sick days has increased as follows:[1] From 1896, when an account of these absences was begun, to 1908, according to statistics of the Bureau of Public Highways, the number of hours of work has decreased from 13,458,817 hours, to 12,992,718 hours, or a difference of 466,099 hours. The number of hours of absence on account of illness has risen from 556,440 to 1,056,464, or a difference of 500,024.

"This doubling of the number of sick days within a period of a few years; this characteristic decrease in the productive energy of the worker—of this worker who each day is better paid and less worked and provided with a greater number of rest days—testifies to a deterioration in the ideal of loyal service which the Council cannot afford to overlook."

I must bear witness that it is devoting itself to the question, and that the number of sick days is decreasing. From 8.27 per cent., in 1907, it has been lowered to 6.44 per cent., in 1911.

The same professional malady has raged with intensity among the employees of the government railways, according to the report of P. Baudin on the supplementary credits of the government railways for the month of July, 1912. Here is the effect of the measure granting full pay to employees reported ill: In 1909 the number of sick days was 474,000; in

[1] The report of M. Dausset on the budget of the city of Paris, 1912.

1911 it had risen to 656,000, or an increase of 182,000 sick days in two years. Out of 67,967 employees 36,816, or 54 per cent., were rendered incapable of work on account of illness. This proportion of incapacitated men is disquieting only from the point of view of the finances of the railway system and its defective administration.

Again, while only a part of the employees were enjoying these hours of leisure, it was, of course, necessary to increase the effective force by 7,440 units, representing 15,539,900 francs of added expense.

11. Even in a small country like Switzerland, justly proud of its lofty public morale, the same phenomena occur.

In Switzerland the Federal Council modified plans in favor of the Federal railway employees, which had been carefully worked out by the general management, in order to make these same employees additional concessions; and these concessions have been still further increased by the Chambers. Salaries have been raised and all sorts of advantages multiplied. Hours of labor have been decreased, and all without any useful result.[1]

The day on which the French government bought the Western railway augured an inevitable strike on the railroad. It was well known that the government had been unable to maintain discipline among the male

[1] Th. Favarger, *Situation des Chemins de Fer Fédéraux en Suisse, Journal des Économistes*, December, 1910, *Rapport de la Commission du Conseil National*, 1909.

and female employees in the tobacco factories. It had come to terms with the employees of the match factories only by the help of one argument: "Strike if you like; there is more profit for us in buying matches abroad than in manufacturing them." It was known also that anarchy was rampant among the employees in the navy yards. Nevertheless, and with such experiences behind it, the government dared to assume the management of 60,000 new employees.

To bring pressure to bear upon the minister, the general manager and the directors of the various branches of the railway service, the railway employees would now have their increased number, their quality of electors, their syndicalist organization and their own deputies, anxious to obtain office by the help of the labor vote. How could the general manager and the directors of the different branches of the service be expected to resist this pressure? And, if they should so resist, would not the minister be the first to say: "Don't get into a row" ?

The employees of the Western railway cherished the most extraordinary delusions concerning what they were going to get out of its seizure by the state. One department head remarked to one of the dispossessed private owners: "I have had only the pleasantest relations with you; nevertheless, I cannot hide from you the fact that I am enchanted with this purchase, because my power of appointment will be thereby doubled."

If one department head deluded himself in such fashion it may be easily judged what went on in the minds of his subordinates. And what bitter disap-

pointments have resulted! Why does not the state which is so rich give everything that is demanded of it? The government railway was the starting point of the strike of 1910.

As an illustration of this attitude of the whole body of employees take the following series of incidents: M. Renault, an employee attached to the main office of the railway, published a manual of sabotage, in which the following declaration appears:

"We must choose comrades among the professional workmen who, on account of their familiarity with the work, can, by a single blow, put out of commission for a number of days the equipment indispensable to the operation of the service as well as to the running of the trains."

The minister called together a committee of investigation into the conduct of Renault, composed of ten members representing the management, and ten members elected by the employees and laborers, under the presidency of M. Viénot, assistant manager of the company. The ten members representing the employees drew up a resolution declaring that M. Renault had done no more than express their opinion.

They rejected the proposal to strike the name of M. Renault off the list of employees, while the ten members representing the directorate voted in favor. The vote of the chairman decided the question. If not a single employee had taken his seat the result would have been the same.[1]

[1] Yves Guyot, *Les Chemins de Fer et la Grève*, 1911.

The chief weapon of the employees of government undertakings is the fear which they inspire in their immediate superiors of being called to account by deputies and senators, together with the influence of these same deputies and senators upon their colleagues and upon the ministers. Nor is the use of this weapon concealed.

A congress of railway men was held in Paris on the 2nd and 3rd of April, 1912, presided over by M. Barbier, of the government railway system. During the course of the discussion another employee of the government railways, M. Leguen, remarked:

"If all public services were properly organized we should be forced to form a federation of all the employees of the government, when we would become an immense force.

"Our syndicalist action upon the state railroad has already been recognized. Nothing is done without notifying the section committee concerned. We have won a footing in the house. Do your companies allow you as much? Just this foothold alone would suffice."

Nationalization of all the railways was voted almost unanimously and upon the spot. It was decided that action should be begun with the Orléans road. Moreover, the congress determined to do its utmost in order that the organization, not only of the present state system, but also of systems to be acquired in the future, should insure to the employees themselves a share in the administration and management to which they contend they have a right.

Laborophobia has been raging among the employees of the government railways, and is becoming still more aggravated: 474,000 sick days in 1909; 656,000 in 1911; 36,816 employees out of 67,967, or 54 per cent., obtained leaves of absence with full salary under the same pretext.

The employees of the government railways do not show the smallest gratitude for the concessions made them. Before the Congress of the National Association of Railways M. Berthelot declared that such concessions had been obtained "through syndicalist action and the strike." [1]

Under the system of automatic promotion, the engineer found guilty of the wreck of Courville, a man who had been repeatedly punished for intoxication, has been promoted to a higher position. Again, the fact that a man like M. Goude, now deputy, was retained in the navy yard at Brest, is another clear proof of the state of anarchy which exists among the employees of the Navy. Still another encouraging feature in connection with our naval employees is the fact that these workmen, who live only for and by preparations for war, are peace at any price men. In 1912, during the discussion regarding the naval program, M. Goude demanded that the number of laborers in the navy arsenals be increased; that the number so increased should remain fixed, and that armaments be diminished.

The following story was told me a few years ago by a naval officer of high rank:

[1] *Le Temps*, April 4, 1912.

"A certain laborer employed in the navy yard at Brest presented himself with all formality before his commanding officer. He gave the correct military salute, touching his cap with the back of his hand with his open palm toward the admiral. Upon the palm, however, was written in large letters a most flagrant personal insult which the admiral pretended not to see."

From the moment that the salary question ceases to be regulated by net cost and becomes dependent solely upon the amount of pressure to be exerted upon representatives entrusted with the distribution of the public resources, salaries will have no other limit than the force of resistance of these same representatives, or the exhaustion of the budget.

In 1912 the city of Paris was asked for an increase of the so-called residence subsidy—an additional amount of money beside the regular salary to partially cover the cost of rent—granted to the teachers of the city. Such an appropriation would involve a general increase of 200 francs for each member of the entire teaching force. Several other concessions were also demanded, which would require a modification of the law of July 19, 1889, and of the decree of April 20, 1892.[1] Let me quote the threatening terms in which one of these teachers—a certain M. Escudié—addressed the Municipal Council in the *Bulletin de l'Association des Anciens Élèves de l'École Normale de la Seine:*

"In the four months allowed the Prefect to answer our petition it is incumbent upon the department of

[1] Report of M. Rebullard, Municipal Council of Paris, 1912, No. 7.

Education and the Municipal Council to prove their good will toward us by adopting a comprehensive plan of increase. If our very modest demands are admitted, in a word, if every instructor is given the immediate certainty of seeing his situation improved before the age of 55 years, this campaign will utterly cease. But at the present time, and I insist upon this, the Department and the Municipal Council alone have the power to put a final stop to further action on our part."

In 1905, following a disagreement with the Federation of Friends (*Federation des Amicales*), whose demands they judged too moderate, the Teachers' Union was organized. It is certain that in so doing no reference was made to either the letter or the spirit of the law of 1884. Nevertheless, on November 7, 1905, the Chamber of Deputies decided not to prosecute the existing union, declaring that all that was necessary was to forbid the formation of new unions until a vote had been taken on the bill concerning the status of government employees. The new union paid no attention to anything except the first part of this decision, and, on the 7th of November, it launched a manifesto declaring that its members wished to become associated with the Workmen's Exchange and to belong to the General Labor Confederation. The manifesto concluded with these words:

"The new union must be ready to furnish a basis for future autonomous organizations to which the government will commit the duty of managing, under its and their reciprocal regulation, a socialized public service."

At a congress held at Chambéry, in the month of August, 1912, 50 unions were represented, at which the principle of the amalgamation of teachers and laborers was endorsed and the following sentiment declared:

"Our relations with the government as an employer are no different from those of any employee toward his employer, and we ought to have, as against our employer, the same rights that any employee has as against his. Such employees have their unions to protect them; therefore we ought also to have ours."

From the standpoint of salary a "syndicalist rate" ought to be established, declared one delegate; and the congress so voted. The suppression of any method of promotion except that founded on length of service was also voted, a premium being thus put on indifference and inefficiency.

Finally the Congress resolved upon "an effective representation of the Teachers' Union at the next congress of the General Labor Confederation, at Havre, in order to emphasize more and more its attachment to the organized working classes," [1] and adjourned after singing the "Internationale." [2]

Many of the members of this Congress were district councillors, and hence representatives of the majority of their colleagues, thus showing how far they were willing to go in taking advantage of the good nature and weakness of ministers and members of Parliament.

[1] *Le Temps*, August 19, 1912.
[2] The Socialist hymn.

Unfortunately for the teachers they went further than the Poincaré ministry was willing to follow. On the reassembling of the ministry, on the 22nd of August it was decided to dissolve the Teachers' Union. The representatives of the union have declared, however, that they will resist dissolution.

M. Guist'hau alone has submitted his case to the courts, which are thus required to decide concerning the legality of teachers' associations. While awaiting the decision the representatives of the unions defied the minister, and their general secretary, M. Chalopin, went to preside over the meetings of the congress of the General Labor Confederation held at Havre.

Up to the present, June, 1913, nothing serious has yet been done. The threat alone has been sufficient to make the school teachers keep the peace to a certain extent.

Many teachers destined to form the manners of the new generation stand in great need of reforming their own. But is it upon them that the responsibility for such acts as those just described above should fall? Should it not rather fall upon the parrot-like training of the normal schools, which teaches pupils to recite socialist or anarchist formulas as they recite phrases from their text-books?

The Congress of Railway Mechanics has put on record its sympathy with the teachers by voting a resolution "protesting against this show of governmental despotism." Afterward its delegates presented themselves before the minister of Public Works, who

was weak enough to receive them, according to the following note, published in *Le Temps* of August 24:

"The delegation put numerous questions to the minister, especially in regard to the reinstatement of employees dismissed during the strike of 1910, and concerning their eventual reincorporation in the state railway system. The members insisted that the pensions, allowances and other advantages previously granted by the railway companies to these dismissed employees be recomputed in conformity with the provisions of the laws of 1909 and 1911.

"The minister requested the delegation to formulate each of their claims in writing, promising to examine them with the greatest care."

This is indeed admirable! The Railway Department had been weak enough to give the dismissed employees pensions to which they had no right; but that was not sufficient. They wanted more; and, when their pensions are regulated to suit them, they will be reinstated into the government railway system, where they can organize strikes at their ease, while saying to their comrades: "You see, we have everything to gain, and nothing to lose, by a strike!"

Toward the beginning of 1912, a school teacher, M. Leger, on account of disciplinary punishment meted out to a teacher, threatened his immediate superior.

A sub-agent in the Postoffice, M. Bouderis, brought before a council of discipline to be dismissed for signing a placard addressed to "the Public," appealed for

protection to the entire body of government employees. The *Bataille Syndicaliste* claimed that he could not be prosecuted because he had acted as secretary of a union.

A rural guard, named Carré, professed anti-militarism. If his actions were in accordance with his talk he would refuse all military duty. Nevertheless the syndicalists exclaim: "Don't interfere with the employees of the state railroads, who are teaching the theory of sabotage."

Under the name of Friendly Association (Association Amicale) the policemen of Paris have organized a mutual benefit society, the officers of which are the higher salaried employees of the Police department—or even officials not belonging to that organization. One of its presidents was M. Vel Durand, former prefect of the department of the North, and afterward councillor of state. Every year the prefect comes to preside over the annual meeting. He frequently brings other ministers with him.

Under the circumstances it was easy to foresee what has since actually happened. A movement was organized in the association to transform it into an active "syndicat." In December, 1911, they presented their claim: Suppression of peace officers, suppression of the ordinances.

The ministers, however, realized that the prefect of police could hardly take orders from a "syndicat" of policemen. Whereupon the "syndicat" appealed to the Executive Committee of the Radical and Radical So-

cialist party, whose vice-president accompanied by his colleagues went and presided over a meeting of policemen organized against the government at a time when the minister in power was representing that same Radical and Radical Socialist party.

At the National Printing Office an attempt was made to form a limited joint stock company, with M. Boudet as director. As it had been published broadcast that he belonged to the General Labor Confederation, he hastened to correct the mistake. He was affiliated with the twenty-first section of the Livre,[1] a branch of the Federation of the Livre, which was represented in the General Labor Confederation.

Now the General Labor Confederation has for its creed: Direct action. Consequently the Federation of the Livre must endorse it.

The subordinate officials of the Postal, Telegraph, and Telephone department have organized many strikes. They have dragged their chiefs through the mud; they have launched insults against the ministers and Parliament. There have been practically no retaliations for this course of action on the part of the government, and, if there have been any victims, they have not been hurt much.

Indeed, it is astounding to observe the utter lack of conscience with which public employees, who have begged to enter the government service, knowing the conditions which they were accepting, and who have

[1] An association of employees engaged in the preparation of the Register of the National Debt.

received so many advantages upon which they had no right to count, have thought themselves justified in interrupting this service at their pleasure.[1]

Such or such an employee is punished because he has hurled an insult or a threat against his chiefs. He appeals on the spot to "liberty of opinion." If he considers outrage and denunciation opinions, he only proves the crying need of reform in our elementary instruction. But among those who confuse these terms are teachers themselves.

Governments themselves persist in destroying all spirit of discipline among government employees. In Austria, in 1911, a number of deputies proposed an increase of 38,000,000 crowns for the railroad employees. The minister, despite his earnest desire to satisfy them, could agree to only 21,000,000 crowns.

Then what happened? The discontented employees, bitterly resenting this grant of only 21,000,000 out of the expected 38,000,000 crowns, and well aware that there are more generous men in power, brought all possible pressure to bear. Meantime they made threats against those deputies who were not disposed to keep on giving them more.

12. Despite facts clearly set forth by Gustave Schelle, who, as honorary director of the ministry of Public Works, is thoroughly familiar with public accounting, the partisans of nationalization and municipalization still continue to talk of "industrial budgets."

Marcel Sembat, who reported on the postal, tele-

[1] Yves Guyot, *Les Chemins de Fer et la Grève*, 1911.

graph and telephone budget, declared that everything will be set financially right on the day when this budget becomes an industrial budget. Employees of the department have declared on divers occasions that the budget is their concern solely and that they have a right to its profits. But how about the losses? If there is a loss will these employees feel themselves responsible for that also?

Numa Droz, in a pamphet combating the purchase of the Swiss railroads, says: "The employees will become accustomed to considering the railways as belonging before all else to themselves, as a field cultivated by them, and from which the profits should revert to them in the first instance."

In 1909, at the Federal Congress of Mechanics and Firemen, one delegate cried: "The government as an employer is incapable of managing a railway system." This opinion, nourished with great care by Socialists like M. Sembat, and by the partisans of public operation generally, is proclaimed with the greatest naïveté: Any undertaking is rightfully the property of its employees. The management should be in their hands. They will operate it for their own benefit.

In their manifestos and in their platforms Socialists are accustomed to refer to ministers as incompetents who "have never done a hard day's work with their hands in their lives." In other words, a director of Government Railways, for example, ought to be an experienced locomotive engineer, and a minister of Public Works at the very least a switchman, in order to justify their right to their positions.

By a decree of June 26, 1911, the National Printing Office was reorganized. The workmen, however, were dissatisfied. They had worked out an organization of their own. They wanted a labor management, but with "due respect for the existing autonomy in the organization of each public department."

During a meeting at the Labor Exchange the employees of the National Printing Office adopted the following resolution, which deserves to be quoted, because it shows their demands in all their crudity:

"In consideration of the fact that for many years the management has not been able to operate the National Printing Press in an industrially satisfactory manner; that the attacks on our establishment before Parliament and in the press are justified by the disorganization of the various departments, and by the general confusion, with fatal results, due to the incompetence of the heads; that a serious prejudice has been aroused against the government among the employees and taxpayers by the discredit passed upon the establishment; and that, finally, the enormous amount of general expenditures is the sole explanation of the increase of net cost, all these facts have persuaded us to substitute for the present administrative régime an organized labor administration; to replace inefficient and disinterested officials by responsible and interested producers; to create a central organization coördinate throughout its parts; to give to the undertaking a management composed entirely of workers; to bring to the attention of the minister of Finance and other public authorities the said plan of administration; and to take such steps as are needed to bring about its adoption."

Here we have the great syndicalist program: the employees, officials, and subordinate officials of the Postal, Telegraph and Telephone department as proprietors of the said department, and the laborers of the navy yards, with M. Goude as their representative, as proprietors of the arsenals. This program, attractive though it be for those who are to carry it out, is scarcely of a nature to increase the prestige of government and municipal operation.[1]

Nor does it imply direct public operation. It is *indirect* public operation, because neither government nor municipality will manage the undertakings of the taxpayers, for whom such enterprises were created. The employees and laborers are going to operate them for their own benefit.

As a matter of fact, the whole question is one of putting into practice Article 11 of the program of the Congress at Havre, in 1880, drawn up by Karl Marx, and presented by Jules Guesde.[2] It is thus worded:

"The annulling of all contracts alienating public property (banks, railways, mines, etc.), the operation of all government workshops to be confided to the men who work in them."

13. From a distance it would appear that such a régime might work admirably; to the omnipotent directors, control; to the heads of departments, their prescribed duties; to the subordinate officials, the head clerks, the executive force, each his special task, and so the wheels would go smoothly round. Ministers,

[1] See Appendix "B."

[2] See the text in *Sophismes Socialistes et Faits Économique*, by Yves Guyot, Paris, Librarie F. Alcan.

even governments, may change; the active management remains. There is some truth in this conception, and the facts have proved it.

Only all management must be carried on by human beings, and human beings have various personal idiosyncrasies. They are not all of the same character, and, in all departments, there are sympathies and antipathies. There are managers who know how to get work done, and others who do not. There is routine and negligence. On the one hand, we have fear, hate, and mistrust of government and public; on the other, dread of responsibility—"don't raise a row." Finally, there is "the good of the service," and from this point of view the undertaking becomes an end in itself.

The partisans of government ownership of the railways are always ready with this postulate: "Why do you think that railways belonging to the government will not be as well managed as private lines, when the same engineers who have managed the one are to manage the other?"

But, as M. Duval-Arnold [1] has well said:

"The same engineer is a very different individual according to whether he is accountable to a private employer or whether he is employed by the city of Paris; in this latter case his work is hampered by the constant effort he must make to keep out of trouble with the Prefect, with the Council, and, above all, with the General Labor Confederation to whom the employees under his orders are subservient."

[1] Société d'Économie Politique, *Journal des Économistes*, December, 1912.

I have heard ministers of Public Works, on the next day after accidents, say, in response to complaints: "Yes, things are going badly. The management of the government railways is deplorable. But I am going to change all that!" Then, without warning the general manager of the Railways, this minister proceeds to dismiss an important official of the government railways, to whom the government straightway awards a good conduct medal. Under such conditions what becomes of the authority of the manager? What respect can he inspire in his employees? Such ministers, instead of bringing order into the government railway service, are playing fast and loose with anarchy.

14. Every government or municipal enterprise is exposed to political outbidding of one politician by another.

Authority slips from the hands of the management in charge to the deputies and municipal councillors, to whom such managers feel themselves responsible, and who are nothing less than proxies of government employees in their attacks on the public interest.

Government employees become electoral factors, so much the more important in proportion to the increase of government and municipal activities. They become the actual masters of those to whom in theory they are subservient. This danger has been strongly felt in the government which has had the most complete experience with Socialism—New Zealand.

Article 22 of the civil service regulation reads:

"In order that employees of every grade can be counted upon to render loyal and efficient service to the government, it is necessary, and, moreover, it is expressly enjoined upon them, to take no part in politics other than through their votes at elections. Each violation of this article will be met by a penalty proportioned to the attendant circumstances of the act."

The railway regulations of 1907 confirm this order: "Outside of their vote employees must take no active part in politics."

A workman in the railway shops, J. A. McCallough, during a meeting of the Independent Political Labor League, in September, 1907, introduced a resolution against the ministry of War, and was dismissed. He alleged as his excuse that he had been occupying himself with politics for a long time without anything having been said about it. The Chamber almost unanimously upheld the government, while regretting its previous tolerance. The following comment appeared in the *Evening Post:* "If the state does not govern the employees, the employees will govern the state." As a matter of fact, the political power of these servants of the government is astonishingly great.

In New Zealand 54,000 persons are directly dependent upon the state; with their families they form a group of at least 130,000 people. Those who depend more or less indirectly upon it may be estimated at a still higher figure. Altogether such individuals represent more than a quarter of the entire population.

Delegates to the British Trade Unions Congress were received by Mr. Asquith, February 15, 1912. Mr.

Millard, representing the employees of the Postoffice, demanded "that they be authorized to exercise all the rights of citizens, and especially to be allowed to speak for or against any candidate in the legislative elections."

Mr. Asquith observed that it was hard to see why postal employees should be granted a privilege refused to all other government employees. An employee of the Postoffice might vote for his chosen candidate, but he ought not to be a member of an electoral committee.

Mr. Millard answered that it was precisely this limitation that he and his constituents wished to overcome. Mr. Asquith asked whom he was representing.

"Postal employees of the lower grades," was the reply.

Mr. Asquith—"You are asking, then, that Postoffice employees, who do not even pay the income tax, shall have a preliminary voice in the elections?"

In Great Britain the suppression of the vote of municipal employees has been demanded a number of times. In the *Municipal Trading Report* of 1900 I find the following declaration of Sir Thomas Hughes, twice mayor of Liverpool:

"The day on which a man becomes an employee of a municipal corporation he ought to have no further voice in the choice of his superiors."

Mr. O. Smith, town clerk of Birmingham, has expressed, although with some caution, the same sentiments. Alderman Souther, of Manchester, and the

Lord Mayor of Glasgow, Mr. S. Chisholm, are also of this opinion.

The suppression of the political and electoral rights of all the employees of states and municipalities is an indispensable consequence of the development of public operation. Are its partisans prepared to accept such a result?

15. Rules for the model government employer:

1. The state should be a model employer, and its generosity should not be limited by any consideration for the taxpayers. Private property should be confiscated for the sake of collective ownership of all the instruments of production, distribution and exchange.

2. To this end the state ought to employ twenty employees where private industry would use but ten.

3. It ought to pay 100 francs of salary, where private industry would pay 50, and it ought to supplement the actual salary by full pay for rest time and vacations, and grant numerous other advantages in the way of money and privileges as well, without counting free lodging.

4. It ought to insure leisure time for workers by always accepting shorter hours of work than private industry is prepared to do.

5. It should recognize one's right to be lazy, and, therefore, it ought to give full pay to all those afflicted with that sacred malady, *laborophobia.*

6. Employees should be irremovable, but they should have the right to strike.

7. The management of undertakings belongs only

to the competent, or, in other words, the employees of the service.

8. The service not being the property of the public, who are paying for it, but of the employees, who ought to render it, its profits belong to them, and ought to be divided among them.

9. The employees, being the rightful proprietors of the service, ought to be bound by no other rule than to make use of it for their own best interests.

10. The model government employer, confiding state undertakings and their operation to employees more or less federated, should not only provide an example of abdication for private employers, but it should force them to it by the above rules, which are essential conditions of direct public ownership.

CHAPTER VI

THE CONSUMER

The Consumer of an Extortionate Monopoly Is Without Redress.—The Sole Remedy; To Go Without.—Water in Paris.—Short Allowance.—Government Matches.—Tobacco.—Deceptions in Quantity and Quality.—The Consumer a Dependent, Not a Contracting Party.—The Postoffice.—The Telephone.—The Privilege of Patience and Good Temper Left to Telephone Subscribers.—Subscription Rates in France.—The Telephone in Great Britain.—The Prussian Government Railway Lines Form a Trust.—Private and Municipal Employment Bureaus.

Under a régime of economic liberty the manufacturer and the merchant need the consumer more than the consumer needs them. Under a monopolistic régime the consumer has but one duty—to submit. He has but one other recourse—to go without.

Now, if there is any service which ought to be provided on a large scale it is water. Yet nearly everywhere the demand is greater than the supply. Paris has always lagged behind. There has scarcely been a summer when, under one pretext or another, there has not been an interruption in the water service.

We have become used to being told that our faucets will be shut off during the night, and that, if we have not taken proper precautions, we run the risk of a

temporary water famine. If a fire should break out we would not have even a pitcher of water to extinguish it.

At the same time official warnings are incessant against wasting water—as though there were a limit to the supply. Here we have the very quintessence of monopoly. Inactive themselves, the municipal councillors content themselves with interfering with the freedom of action of others.

The employees of a monopoly through all the degrees of the hierarchy know their power and use it. We have already seen this in the case of tobacco.[1] But let me illustrate by one or two other examples.

All those who must use government matches have complained, not alone of their quality, but even of their quantity.

Ten centime boxes, which bear upon their wrapper, "Swedish matches, 60 matches," are passable, although they generally contain a certain number of uninflammable bits of wood. But lately, in the country, I have had to content myself with boxes at 5 centimes, bearing a label: "French matches, 50 matches."

I observe that the difference in the cost of the matches is offset by a difference of 10 matches in the cheaper box, or 17 per cent. less. Matches which will light are the exception.

Now please notice that in our democratic country these cheaper matches are provided for people in poor

[1] See above, book 2, chapter 20.

circumstances. Yet the department is deceiving them in regard to the quality of the goods.

In order to sell its matches, the government relies on wholesale and part wholesale merchants. The first must buy a supply at a minimum sum of 20,000 francs, and the second at 2,000 francs. The commission in the first case is 16 per cent. and in the second 14 per cent. The total profit from these commissions is not realized by the merchants, because they are forced to pay commissions to grocers and other retail merchants up to 10 per cent.

Nevertheless, small as they were, the government determined to reduce the first-mentioned commissions, which it considered too generous, and an order of December 30, 1911, provided that, beginning with February 1, 1912, the commissions should not only be lowered to 15 and 13 per cent., respectively, but also that only those shall be considered as wholesale merchants who buy 20,000 francs' worth of matches at a time, and at least 125,000 francs' worth a month. Against this last condition, however, interested parties protested, and the director general of indirect taxes (*Directeur General des Contributions Indirects*) informed his departmental heads that the order aforesaid would be modified in regard to this special point. The number of middlemen was also reduced because, by demanding large sums from a few, the government could get along with a much smaller number.

Occasionally those who are curious enough to investigate will find that they are being deceived as to the number of matches in the boxes sold by the government. Indeed, after a number of experiences of this

character, I have become convinced that the department looks upon the consumer not as a contracting party, but as a beneficiary.

In 1906, during several weeks, if not several months, the situation of the smoker, as described by *Le Journal*,[1] was about as follows:

"Yesterday, as I entered a tobacco shop, a customer was asking for a 70-centime green package of cigarettes.

" 'We haven't any,' answered the dealer.

" 'Then give me a pink package at the same price.'

" 'We are out of those, too.'

"The astonished customer glanced at the luxurious fittings of this large shop on the Boulevard and inquired:

" 'How do you happen to be out of the most popular brands?'

" 'Because the supply in the warehouse from which we order our tobacco is not large enough to meet the demand. One day it is one kind and another day another which I am refused,' added the clerk, shaking her head.

"As an actual fact, when one kind of tobacco or cigarettes is manufactured in a district, the warehouses and their customers, the retailers in that particular district, must go without all the other brands.

" 'I don't know where all this will end,' continued the clerk. 'First customers complain, then they become angry, and we can do nothing about it. And yet it is too bad to lose a sale through the fault of the manufacturer!' "

The article terminates thus:

[1] July 30, 1906.

"Many deceptions are complained of, such as cigarettes which unwrap the moment they are lighted, overmoist tobacco, etc. The inequality in the weight of the packages is especially astonishing.

"One retailer weighed a certain number of packages of ordinary tobacco costing 50 centimes. Instead of the regulation weight of 40 grams, from 32 to 35 grams were found. It is only fair to add, however, that there were a few weighing 50 grams. The purchase of a 10-sou package, therefore, becomes a sort of lottery. This state of affairs occurs, it seems, because there is not time to weigh the packages in those pretty little patent scales which are so successful at world expositions, but of which there are altogether too few in the tobacco factories."

Five years after the above article was written I read in the *Figaro* of August 20, 1912:

"We mentioned day before yesterday the case of a user of 'mild tobacco' from whom was demanded the sum of 1 franc for a certain green package which bore, on the label, *80 centimes*. 'That is the old label,' was the scornful answer to the remonstrance of the customer."

"The self-sufficience of the state as a merchant, and especially a tobacco merchant, is manifested in a number of other ways. One of our subscribers, a well-known business man, from the district of the Seine writes us:

"'I am a smoker (unfortunately), but I can only smoke Maryland, which comes wrapped in yellow paper at 1 franc for 40 grams. For some time now I have been losing three packages out of five because the majority of the packages of Maryland contain *caporal superieur*, a tobacco so strong that I cannot smoke it. In addition to the total loss of the package, which I give away

to people who can endure this tobacco, I am cheated in regard to the price, since a package of *caporal superieur* is sold for only 80 centimes when it comes in blue packages, and, therefore, I am paying 1 franc for the same tobacco in a yellow wrapper.'

"'If, by chance, I get packages which really contain Maryland, I never get the same tobacco. Sometimes it is light, sometimes it is brown, often it is as black as the ace of spades.

"'I can show you packages of Maryland which contain nothing but *caporal*. . . .'"

"What merchant would dare to use his customers in such a way?" asks *Figaro*.

No private merchant, certainly, because the dealer who calls down upon himself the wrath of his customers is certain to be ruined. The government, however, can well afford to disregard its customer, the public, whom the tobacco monopoly has placed in its power.

Sometimes, as in the case that I have just quoted, there is more than mere disregard of a customer, there is downright cheating as to the quality of the merchandise sold. Such an act would expose a private individual to civil damages and even severer penalties. A government can commit such an offense with impunity, for it does not consider that it is under any obligation to the consumer.

Service order No. 590, issued with the best intentions by the postal authorities, illustrates the above fact with amusing naïveté:

"On account of the very considerable increase in traffic in certain sections during the summer season, it is not always possible to keep to an absolutely normal course in respect to correspondence of all kinds, despite reinforcements to the overburdened service. This situation threatens to become still further aggravated this year, on account of the suppression of a very great number of temporary positions outside the regular staff which were formerly distributed among the different districts during the months of July, August, and September. There is thus cause to fear that under these conditions letters which ought always to be transmitted regularly will be delayed in distribution. With a view to offsetting this state of affairs, it would seem expedient to devise methods of causing the public the least possible inconvenience.

"In order to attain this object groups of volunteers will be organized upon whom we may call, during spare time with pay, to sort out mail, the distribution of which can be delayed without undue inconvenience, viz., postal cards and printed matter."

Article 21 of the decree organizing the postal service declares that neither the department nor its employees can be held responsible. Articles 1382 and 1384 of the civil code are not applicable to them. Article 22 expressly stipulates that the Postoffice cannot be held accountable for the security of private mail.

In 1905, on returning from the United States, I rediscovered in Paris all the joys of the government telephone. I rang up Central. At the end of one or two minutes there was a response of "Number, please." Then I stood and listened to calls for other

numbers, private conversations, etc., while waiting for the operator to condescend to inform me, "They do not answer," in regard to parties whom I knew had permanent attendants at the telephone. Or perhaps I would hear the refrain "busy," a statement which, of course, could only be verified afterward. I ventured to protest. Instead of being rewarded for patience I was penalized for 15 days. No one could reach me, nor could I telephone anyone. Finally, the department, tormented by the subscriber who complained so persistently, advised me to "Go and see the Gutenberg exchange." I went to see the Gutenberg exchange, and there I described the system in the United States, where, in New York, even during the busy hours, you can get your party almost instantly.

"'But what can you expect?' said the official who accompanied me, and whom I happened to have met in New York; 'they have private companies in New York.'

"'We won't quarrel on that point; but the fact remains that these private companies accomplish more than our government does.'

"'It would cost us 80,000,000 francs to introduce such a system.'

"'Isn't that a slightly exaggerated figure?'

"'We are four years behind the times, and yet you complain when you have to wait five minutes. You can see for yourself how unreasonable you are.'"

It was, of course, perfectly evident that it was all my fault as well as that of all the other telephone subscribers who believe that the service ought to be prompt.

In France, at any rate, the telephone is in league with the medical fraternity and the pharmacists, because it is bound to bring on neurasthenia in all those who have anything to do with it. Presumably the Government is encouraging medical consultation, the sale of bromide of potassium, and patronage of certain hot springs.

At various times I have been able to demonstrate the absence of responsibility which especially characterizes government administration.

You follow religiously the directions prescribed by the telephone regulations in asking for the manager. At the psychological moment the operator cuts off the connection. You may remain in the booth for an hour without obtaining an answer. But let us suppose that, as a great concession, you do get a manager. The lady's first impulse is to put you in the wrong. She forces you to submit to an interrogatory, from which she invariably concludes that if you have rung too long without any answer; if you have been refused an answer after a call which has lasted 20 minutes; if there has been a systematic refusal to give you any connection at all; if your wire was labeled "busy" when it was not, you yourself are the sole offender.

If you ask for the district superintendent, the first impulse of that personage also is to protect his administration. He is far less anxious to account for the facts than to prove to you how culpable you are.

Finally, if your guilt is not clearly established, the fault is laid to the instrument. An electrician will speedily appear at your home to repair your telephone.

"The apparatus is out of order?"
"No."

He smiles, but he makes a semblance of fixing something. He is an accomplice of the operator, the manager and of the department at large, against the subscriber.

If he were to act otherwise, his existence would be rendered intolerable.

At last you go still higher up. An inspector comes to see you at the end of fifteen days, and proves dogmatically that whatever is, is right. As for responsibility, no one ever acknowledges any. It is either the apparatus or the subscriber who is at fault—unless it be Parliament, which has not voted the necessary appropriations.

But the department is capable of going still further. It presumes to suspend, on its own authority, the service of certain subscribers with whom it is at odds. It arrogates to itself the right of punishing any individual who has paid for the privileges of the telephone.

Any telephone subscriber who desires to socialize railways, banks, insurance, alcohol, sugar, mines, petroleum, etc., is simply demonstrating a natural leaning toward martyrdom. If he has not such an inclination he is at least incapable of understanding the relation of cause and effect. He refuses to be taught by experience.

When an individual hands over money to another individual, in order that the latter may place at his disposal the use of any service, he should have the free use of such service. If, on the other hand, an indi-

vidual accepts a remuneration for rendering a service which he does not render, he acquires the reputation of a man with whom it is not safe to do business, because he does not hold to his contract. In a word, he would be discredited. In open competition his customers would turn from him and go to his rivals. Or, if self-interest alone were not strong enough to compel him to fulfill his obligations, the courts would know how to force him to do so by subjecting him to severe penalties.

The case of the government is altogether different. But at least, when it has been paid for certain services, it should perform them as faithfully as an individual would do. The following relatively recent occurrence proves that the French Government at any rate feels itself under no such obligation.

The interurban telephone is very convenient if the residents of the localities so connected can succeed in getting into communication with each other. When there was only one telephone line between Paris and Lille, satisfactory communication was practically out of the question. But the Chamber of Commerce of Lille was and is both wealthy and prosperous. Therefore, it said to the government: "We are going to pay you for the installation of two additional lines." The government accepted the offer. But even with the two additional lines, users wishing to be connected had to submit to long and exasperating delays.

Again the Chamber of Commerce proposed to the minister: "We are ready to pay for still another additional line." The government again accepted. Communication was scarcely more prompt.

The Chamber of Commerce paid successively for the installation of two more lines, so that in 1907 Lille was connected with Paris by six telephone lines. Therefore Lille may be said to have made considerable sacrifice in order to insure telephonic communication with Paris. But did it get it? *No,* for the state has continued to interfere.

In the case of strikes, like that at Pas-de-Calais in 1906, there has been complete suppression of private telephone communication. "The rights of individuals must be considered after the necessities of the state." This doctrine is all right so far as it goes, but ought not such necessities to have an end? And has public interest really demanded the suppression of telephonic communication between Paris and Lille?

There has been, as a matter of fact, no occurrence whatever which could make it necessary for the state to monopolize several of these lines; moreover, in the month of June, 1907, there were no strikes on any of the lines. Yet, when a connection was called for, there came the same old answer: "The line is busy."

"How many lines?"

"Three!"

"And the three others? Why are they not working? Are they being repaired?"

No, but the prefects, the sub-prefects, the employees of the prefecture or of the various departments were using the other lines. Public officials cannot wait, and therefore they press into their service a number of the wires paid for by the Chamber of Com-

merce at Lille in order to insure quick communication with merchants and manufacturers.

This is a flagrant example of government methods when it is administering something. The officials are convinced that they represent higher interests; and, by an often unconscious deviation from strict honesty, they acquire the habit of covering with this excuse acts which have nothing in common with public service. In any case, they consider that their business must always come first, and by virtue of this conviction they extend, as in this particular case, the government prerogative over facilities which in truth were not established by the government and do not belong to it. I hope that by this time this condition of affairs has been somewhat improved.

Moreover, while the state is demonstrating this self-complacent attitude toward the public, it demands the utmost deference on the part of subscribers. At the slightest act of disrespect, it constitutes itself at one and the same time legislator, judge and executioner for the punishment of the offender, as in the case of Mlle. Sylviac.

The department, in order to punish her for having, as it declared, addressed a telephone operator offensively, deprived her of the use of the telephone for seventeen days. Meanwhile her subscription ran on, and thus the lady was paying for a service which was being refused her.

She summoned the minister responsible for the department concerned to appear in court, where she demanded to be at least reimbursed for her subscription during the seventeen days when she was refused

service. In the case of a private company she might have demanded damages in addition and the judges would have decided in her favor.

But the government is not subject to judicial decree like all the rest of the world, and it has all sorts of defenses behind which to shelter itself against individuals. It declared the court incompetent to decide the question, and the court duly acknowledged its lack of jurisdiction.

The Council of State, however, the final court of appeal, did not admit such a plea, and we congratulate it. It decided that the government, as manager of the telephone service, is a responsible agent and is subject to the jurisdiction of the civil courts.

But the telephone department, instead of submitting, set up a new difficulty. It declared that the case, as concerned with taxes, must be decided not in open court, but on briefs, according to the procedure of the judicial courts, under the old political régime. Ultimately the case was decided against Mlle. Sylviac.

Evidently subscribers to the telephone have no other rights or privileges than to be patient and keep their temper.

Telephone subscription rates are extremely high in France. In 1907 M. Gourju, a senator, complained of the high rate which, at Lyon, was 300 francs. That city has 3,400 subscribers. If the number of its subscribers were in proportion to those of the five most important cities of Switzerland, viz., Geneva, Lucerne, Berne, Zurich and Basle, it should have 25,000.

The assistant secretary of state for the Postal, Telegraph and Telephone department has attempted to ex-

plain away the high rate and the absurdity inherent in the fact that 400 francs must be paid in Paris, 300 francs in Lyon, and 200 francs in Marseilles, at the same time asserting that the rate cannot be lowered. Why? Because there would be too many subscribers.

Under a system of free competition the producer seeks to extend his clientele indefinitely. A government monopoly looks for an advantage in restricting the number of its users and in the elevation of prices. The answer of the assistant secretary of state only goes to confirm the general truth of this rule. The sole thought of the Telephone department has been to prevent an increase in the number of subscribers. Every subscriber who has dropped out has been given a hearty god-speed. Each new subscriber is an enemy. One minister was imprudent enough to promise a reduction in rates from 400 to 300 francs. What would become of the service if the promise of the budget had been kept? The courageous minister had neglected to consult existing possibilities; therefore the rate has been maintained at the same figure down to the present, and the fear of the subscriber must still persist, because there are no more suggestions of rate reduction.

And, anyway, how could the department solicit new subscribers when it is unable to assure service to its present subscribers?

As a matter of fact the department has not the necessary equipment. As a last resort there are appropriations. But even when these shall have been obtained, the department will still find itself in arrears, and, as for a reduction in the rate, it will not make one for fear of an increase in the number of subscribers.

Neither does the Telephone department make any effort to give the public maximum service at minimum cost. Instead it restricts the service and pleads expense as its defense against the influx of demands for telephone service. Indeed, one senator has gone so far as to say that the postal and telegraph service in France is worse than that in any foreign country. But this is too complete a generalization. In most countries it is certainly worse than in France. If the assistant secretary of state had returned a similar answer to his critic he would have been in the right.

But not at all. He must generalize in his turn, and therefore he exclaims: "I cannot allow it to be said that the postal and telegraph service is inferior in France to that of foreign countries."

The telephone service was and is still very much better in Switzerland, in Belgium and in the United States than in France. When the telephone service of Great Britain was transferred from private management to that of the postmaster general, Lord Davenport, director of the Port of London, in a letter published in the *Times* of February 12, 1912, complained that "the telephone service has become impossible and commerce is suffering in consequence." The Postmaster General did not deny the accusation. On the contrary, he contented himself with saying that "the difficulties in London are those found in all large cities, and the subscribers can be certain that the department is doing its best." [1]

But, as the *Times* has observed, state operation of the telephone has effected a change for the worse in

[1] See Appendix "C."

the situation of the subscribers. When they were dependent upon the National Telephone Company, the complaints of subscribers did not go to the bureau against which they were made, but directly to the management of the company. Forms were made out which could be addressed to the management, and the effect of these was admirable. The operator knew that any complaint would be followed by a thorough investigation. The government suppressed these complaint forms and replaced them by a letter. This letter has proved utterly ineffective. (The *Times*, February 13, 1913.)

Social and municipal theorists are constantly receiving flat contradictions to their assertions regarding the value of institutions fostered by them.

Sometimes the consumers of a government enterprise stand in the light of a privileged class, but this is always a precarious position, because it is not based upon contracts mutually agreed to and the infringement of which may be punished like that of any private contract.

In 1903 the Belgian Socialists boasted of the good fortune of those who patronized the Saar coal mines belonging to the Prussian government. Paul Trasenster, Belgian deputy, proved, however, that such eulogiums were not merited. Later the Chamber of Commerce at Saarbrück brought to light facts which completely supported the deputy's contention.[1] Moreover, in its report of 1903, the Chamber reproached the management of the fiscal mines with having pre-

[1] *Organe Industriel*, of Liège, August 1, 1903.

vented any relief to the iron ore industry by levying exorbitant rates during periods of depression.

When the Saar mines passed into possession of the Prussian state, about 1863, it was expressly understood that every citizen should have the right to buy coal. But the management of the mines, instead of holding the balance even between all the coal dealers of the district, granted a veritable monopoly for the sale of it in France to two firms, by granting them a rebate of 0.50 marks per ton. For itself it reserved the exclusive monopoly of supplying iron and steel works, railways and gas companies.

The rest of the merchants of Saarbrück, who help to supply the French market, have been obliged to get their coal in Belgium and from the district of La Ruhr, and have been the most active agents in the competition of coal and Belgian compressed fuel with the Saar coal in Eastern France.

Edgard Milhaud quotes the following passage from a study of the German trust made by Arthur Raffalovich in 1909.[1]

"One of the most serious reproaches that can be brought against the trusts is that of preventing the full and free utilization of the sources of production. From 1906 to 1908 the Rhenish-Westphalian coal company produced 67.63 per cent. and 55 per cent. only of the visible supply. The potash trust succeeded in utilizing 33 per cent. of the capacity of the various producing centers, when, if their capacity had been fully developed, the sale price would have been reduced 45 per cent."

[1] *L'Économie Publique*, November, 1911.

Then he concludes:

"Such are the new economic methods introduced by monopolies either national or international."

This monopoly is under the protection of the government. Edgard Milhaud opposes to it "public operation as a superior economic tenet." But public operation is nothing but a more complete monopoly; and, "far from freeing the productive forces thus chained and bound," it would only add a thick-headed tyranny both scornful and lethargic, as the facts already cited go to prove.

The German government favors the trusts, while Prussia maintains that it can limit their demands by its mining operations. However, on January 12, 1912, the Prussian government abandoned this pretense and capitulated before the Rhenish-Westphalian coal trust in regard to Westphalian coal. Production is not to be limited, but the coal is to be sold by the company. The company consented to decrease by a half the normal price for coal and compressed fuel and by a seventh the rate for coke. The fiscal mines will pay a minimum quit rent of 6 per cent., while private companies pay 12 and 7 per cent.

In 1893 I repealed the law suppressing private employment bureaus. It was not promulgated again until much later, March 14, 1904, when every municipality numbering more than 10,000 inhabitants was ordered to establish a free employment bureau. I had proved that municipalities could not fulfill this obligation.

If the law had ever been put in force, 258 bureaus

would have had to be established in these cities of 10,000 inhabitants. In 1911 the Commissioner of Labor declared in a circular that in 132 of these cities, or 51 per cent., there was no municipal bureau in operation. For the whole of France, Paris included, the total number of positions filled annually by public employment bureaus averages 85,000. According to the minister of the Interior "the municipal employment bureaus have not accomplished that which the government expected of them." Yet he had counted upon them in the first instance to compete with private business.

Nevertheless this same minister, with superb optimism, declared that, although the law had failed, it was not the fault of the law. It was not sufficiently complete, that was all. It would be necessary to put in force the German system which associates with the employment bureaus the so-called Conseils de Prud'-hommes.[1] This committee collects all indispensable information. It deals with the workers and the domestics for whom it has found positions if they have given occasion for complaints. In France, an order of October 25, 1911, attempted to establish employment bureaus on the model of the German bureaus. Subsidies were granted from that date to bureaus which should have fulfilled the three following conditions:

1. They must be under the control of a non-sectarian committee with a neutral presiding officer having no vote;

2. They must continue their functions in case of

[1] Arbitration committees, composed partly of employers and partly of workingmen.

strike or lockout, meanwhile advising the applicants that such a conflict exists;

3. They must have placed an average of 25 applicants a month.[1]

Presiding officers may be found perhaps for these bureaus, but will they come to the meetings? What will they do there if they do come? They cannot even settle the question between the two parties by a casting vote, since they have no vote. Such bureaus will perhaps find members, but members will be unable to do anything even if they should have any inspiration in any direction, because they will have neither sufficient appropriations nor police power (fortunately) in order to obtain information indispensable to their work as spies. Finally they would perhaps receive offers of employment, but would they continue to receive demands for work?

When the employees of the Postal, Telegraph and Railway departments organize strikes, they resolutely sacrifice to their own interests those of their fellow citizens. They are speculating on the weariness, the privations, the disasters that inevitably follow as well as upon the weakness of the government in its attitude toward them.

I have not spoken in this chapter of the patrons of state railways. I have already demonstrated sufficiently the fate of both passengers and merchandise when confided to their tender mercies.

[1] *Bulletin de l'Office du Travail*, February, 1912.

CHAPTER VII

PROGRAMS OF ORGANIZATION AND REGULATION

The American Investigation.—Economy and Efficiency in Government Service.—Labor.—Three Methods of Recruiting and Promoting.—Regulation of Government Railways.—"Industrial Efficiency."—Giolitti and the Hopes of Italy.—Elimination of the Politician.—Modesty of the Partisans of Public Operation.—The Department Substituted for the Minister.—The English Admiralty and Winston Churchill.—M. Chardon and the Fourth Power.—Impossible to Give Government Service Industrial Efficiency.—Either Stagnation or Disorder.

Plans to make the wheels of government run smoothly are numberless. Parliaments have been discussing such plans for years, and publications suggesting all sorts of methods to that end form an enormous library in themselves.

Under the acts of June 23, 1910, and March 3, 1911, the President of the United States, Mr. Taft, appointed a commission charged with the duty of investigating the manner in which various Federal departments and public enterprises were being managed. Among other things the Commission was to make a report indicating methods by which greater efficiency and economy might be brought into the public service.

Four volumes of this report, entitled *Efficiency and Economy in Government Service,* have already appeared. Two contain the report to the President on the organization of the government of the United States on July 1, 1911, and his message of January 17, 1912. A third contains another presidential message, dated April 4, 1912, together with the reports of suggested modifications to be introduced into the various departments and the remarks of the heads of the departments thereon. A fourth small volume contains a third message of the President, transmitting the conclusions of the commission regarding the centralization and the distribution of government publications.

The fact that such an investigating committee was appointed at all is, of course, a sufficient proof that Congress and the President had found that all was not going well in the Federal administration of the United States. But where is the country whose administration is perfect? Do we Frenchmen not hear every year, apropos of the budget, and especially this year in regard to the organization of the budget of 1907, the most violent attacks against the French administrative system and its methods? To increase the activities of the government is not the way to improve its habits or to bring about economy. Such is, nevertheless, the homeopathic remedy which a number of those who are indulging in the most violent criticisms are now proposing.

The authority of the Federal government of the United States extends over a territory equal to that of eight-tenths of Europe and over a population of 92,000,000 people.

"The operations of the Government affect the interest of every person living within the jurisdiction of the United States. Its gross expenditures amount to nearly $1,000,000,000 annually. Including the personnel of the Military and Naval establishments, more than 400,000 persons are required to do the work imposed by law upon the executive branch of the Government.

"This vast organization has never been studied in detail as one piece of administrative mechanism. At no time has the attempt been made to study all these activities and agencies with a view to the assignment of each activity to the agency best fitted to its performance, to the avoidance of duplication of plant and work, to the integration of all administrative agencies of the Government, so far as may be practicable, into a unified organization for the most effective and economical dispatch of public business."

Mr. Taft makes the same complaint in regard to American official documents that has been made against similar French documents, and which can be brought against the official documents of every country:

"Notwithstanding voluminous reports, presented annually to the Congress, no satisfactory statement has ever been published of the financial transactions of the Government as a whole. Provision is made for due accountability for all moneys coming into the hands of officers. . . . But no general system has ever been devised for reporting information as to the actual costs entailed in the operation of individual services nor to make possible the exercise of intelligent judgment concerning the value of the results obtained when contrasted with the sacrifices required. I am convinced that the time has come when

the Government should take stock of all the activities and agencies and formulate a comprehensive plan with reference to which future changes may be made. The report of the commission is being prepared with this idea in mind."

One great difficulty in all countries is the recruiting of employees: how to enlist the ablest men and put them into the positions to which they are best suited.

The message of Mr. Taft of April 4, 1911, declares that legislation must establish "a merit system which will guarantee to the people in the conduct of the public business the advantage of officials chosen for their capacity and devoting their time and their talent exclusively to their duties." This is a desire more easily expressed than realized. An unhampered selection of employees is only too apt to result in favoritism and injustice.

Competitive examination is a Chinese method which by no means insures capability. In the competitive examinations of British India, the Hindoos succeed where the Musselmen fail, and the Musselmen protest in the name of all humanity that competitive examinations too often bring out nothing but the qualifications of a parrot.

Promotion based merely on length of service puts a premium on inertia and incapacity.

Whatever may be the disadvantages of promotion based on arbitrary selection, it is the only method which will place the really capable man in higher positions. Private industry proves this.

Promotion by selection is a system that is not adopted and that cannot be adopted by a state. Selec-

tion, instead of falling upon the more serviceable man, will inevitably fall upon the man who has the greatest amount of pull. The Navy has its "sons of the Archbishop," while all departments have "the sons of their fathers."

Every trading operation demands regulation, but the regulation of a state department tends to become so minute that very often it becomes an end in itself and impedes action.

The state railway of France, for example, is subject to the administrative control of the department of Public Works; to the department of Finance, which regulates its expenditures; to the judicial control of the Court of Accounts; and finally to parliamentary control, which, aside from all the others, appears in three separate and distinct phases in the budget of the state railway system.

Under the title *Industrial Efficiency of the State Railways* M. Baudin demands the abolition of these indispensable censorships. In other words, he is asking that the management of the state railways be permitted to issue bonds in such quantity, at such time, and at such rate as it may deem wise. However, no sane minister of Finance will ever permit a government department to use government credit at its pleasure.

State undertakings have no "industrial efficiency," because they are subordinate to the general interests of the state and they must be rigorously controlled.

In 1905 a grand centralization of the Italian railways was begun. There was a general desire to have important government undertakings concentrated in

Rome, and therefore the entire organization of the railway lines was broken up. In 1911 Minister Sacchi made an attempt to model the government railway service upon the system being operated with success by the Adriatic Railway Company. Theorists and experts in government and municipal operation took care to announce: "Our system will be an excellent one because it is to be managed like a private enterprise." Giolitti also emphasized this policy in his explanation of the reasons for taking over life insurance:

"We have no intention of creating a new organization of bureaucrats, but a truly independent undertaking which will differ from private business of the same kind only in the fact that it will be the property of the government. The fact that this enterprise belongs to the state does not imply that it has a character different from that of private enterprises. In so far as we are concerned, the sole difference is to be found in this fact that the proprietor is not an individual."

January 17, 1911, M. Globinski, Austrian minister of railways, insisted in an ordinance "on the essentially commercial character of the railways, of which the bureaus ought to take due account."

In the end all efforts to repudiate the essentially administrative character of public undertakings are a real condemnation of them. Why try to make a state enterprise do what it really cannot do? The private enterprises which it is replacing are presented to it as models to be imitated. Were they then so good? At

any rate they were better adapted to their purpose than the public undertaking substituted for them.

There is only one legitimate motive for substituting public ownership for private enterprise; that is, the absorption of the profits of private companies for the benefit either of consumers or taxpayers, on condition, of course, that such profits are to be made.

The Italian National Insurance Fund is a legal entity, and its management is autonomous. Nevertheless, the insurance policies which it issues are guaranteed by the state.

Its management consists of: (*a*) An administrative council; (*b*) a standing committee; (*c*) a general manager; (*d*) trustees; (*e*) a technical and soliciting staff.

The administrative council is composed of nine members, and is appointed by royal edict on the motion of the minister of Agriculture, Industry and Commerce. The same edict appoints the president and the vice-president of the council. Four of its members are public officials, and four others private individuals.

M. Jèze is enthusiastic because the management is out of reach of the influence of senators and deputies and, in a general way, of all persons holding elective offices. "Therefore, all political interference is removed from the operation of the enterprise."

Now the men who propose and vote for government monopolies are politicians, ministers, deputies, senators. Yet, at the very moment that they are increasing the functions of the state, they are branding the men who direct the state with dishonor. For in order to heap up the measure of irony, they declare that they

are incapable of managing the very institutions with which they themselves have so generously dowered the state. Modesty can surely be pushed no further than to say: "We will vote for state monopolies, but we declare ourselves unfit to administer them, because if the politicians who vote for them, and among whom we count ourselves, should manage such enterprises, disorder, injustice and corruption would ensue. Therefore we decline for ourselves, and we refuse to anyone who has been a senator, deputy or minister the privilege of managing the National Insurance Fund."

That ministers, senators and deputies have adopted this inconsistent attitude may be a proof of their lofty sense of public duty, but can they really believe that they are enhancing the prestige of deliberative assemblies by declaring themselves unworthy to direct monopolies that they themselves have created? Are there not men in public life "who have demonstrated their technical and administrative capacity"? No matter! The title "member of parliament" appears to be reason enough to disqualify them.

But the members of the administrative council above referred to are appointed by ministers who are, of course, public men. Ministers also appoint the general manager. Are we then to believe that all political considerations are eliminated in these selections?

Finally, the trustees must present annual reports, which it is the duty of the minister of Agriculture, Industry and Commerce to communicate to Parliament, together with the report of the managing council (Conseil d'Administration de la Caisse). Moreover,

the technical and analytical balance sheet containing all the data, admitting of estimate as to the profits realized by the Fund from each contract and each form of insurance, according to the nature of the insurance operations, must be communicated to Parliament every three years.

Consequently the interference of politicians, to use the scornful title of Professor Jèze, is not completely eliminated from the management of the National Insurance Fund. Moreover, it cannot be eliminated from any government monopoly, except by constituting such monopoly a power apart and placing it above all other institutions of the country. The ministers appoint the important officials. The government has always the right of control, and every three years a detailed account of the business of the monopoly must be submitted to Parliament.

In a report of M. Gaudin, of July, 1912, I read the following regarding supplementary appropriations to the state railway of France:

"The administrative organization of the state system tends to eliminate all political interference with the employees. The form of the statute as actually prepared, by the execution of articles 58 and 68 of the law of July 13, 1911, serves to keep the department free from all external influence."

This looks well in print, although everyone knows that it will not amount to anything. The statute appeared April 31.

In October the director of the state railway sys-

tem addressed a letter to the deputies, declaring that in future no further attention would be paid to their recommendations. A single incident, however, is helping to prove that attention will at least be paid to whatever the subprefect shall ask of the official spy called the municipal delegate.

In 1912 Winston Churchill presented as his own naval program the demands of the Board of Admiralty. "The Board of Admiralty settles everything; the cabinet only registers its decisions," said the *Economist*.[1] If each service were to settle its own affairs in complete independence, what but anarchy and ruin could result? It is the duty of the government to determine, according to general political, financial and economic conditions, the part that each service ought to play in the general scheme of things, as well as in regard to the manner in which such service is being carried on. Coördination of effort and responsibility is the condition of the existence of a nation. The men at the head of public affairs are alone able to bring about such coördination, and they ought to assume not only the task, but likewise its responsibility.

Every extension of governmental functions involves new duties and the creation of new officials, while, at the same time, it increases the importance of those already in office. The preponderant rôle which politicians themselves yield to bureaucracy is easily seen. They declare themselves incapable, and abdicate in favor of the bureaus.

[1] July 27, 1912.

All this appears so natural that a recording secretary to the Council of State, M. Chardon, favors the organization of a fourth division of government to be called *"the administrative power."* He declares that the director of any state department should be able to appeal through his writings and speeches, and also by his position, as a commissioner of government no doubt, against the decisions of his ministerial superior. But surely the heads of departments would have a logical right to the same attitude toward their directors; the managers of bureaus toward the head of their department; and the assistant managers in regard to the managers of the bureaus; the head clerks and the clerical staff with respect to their superiors, and so on. The moment any such power comes to be recognized anarchy will have been proclaimed.

Administration is not a power comparable to the executive, legislative or judicial power. It is an essential part of the executive power. It can neither be separated from it nor exist apart from it. An executive power which has for its prime duty the security of the people of the nation at home and abroad can be only a political power.

It is precisely because of the essential nature of the executive power that duties foreign to it, and which must inevitably corrupt, disintegrate and prevent it from fulfilling its real functions, ought not to be forced upon it.

All attempts to give "a business organization" to government enterprises are condemned to failure in advance. Either such undertakings will languish under an abuse of control which would impede action, or,

while operating in full liberty, they will fall into moral and financial disorder. And let it not be forgotten that stagnation and disorder far from nullifying frequently reinforce each other.

BOOK IV

POLITICAL AND SOCIAL CONSEQUENCES OF PUBLIC OPERATION

CHAPTER I

SOCIALIST PROGRAMS AND THE FACTS

1. An American Idea.
2. Facts and Programs.—Organization of Public Service. Legal Monopoly.—Natural Monopoly.—Actual Monopolies Transformed into Legal Monopolies.—Restoring the Profits of Capitalism to the Community.—Exhaustion of Taxable Property.—Fiscal Monopolies.—A Quotation from Montesquieu.—Fraud.—Resolution of the French Chamber of Deputies in Favor of the Alcohol Monopoly.—Georges Cochery and the Alcohol and Insurance Monopolies.—Significance of His Words. Adoption by the Budget Committee of 1901 of a Proposal to Set up a Petroleum Monopoly.—Proposal to Monopolize the Importation of Wheat and Flour.
3. Daring Theories.—Timidity in Application.—Socialism Under Cover and Socialism on Parade.—Ramsay Macdonald.
4. Municipal Socialism.—Platform of the Three Political Groups in Great Britain.—The International Socialist Congress of 1900 and the Municipal Program.—The Claims of M. Lafferre in the Name of the Radical and Radical-Socialist Party.—The True Founders of Municipal Socialism.—The Congress of St. Quentin.—Method of Combating Capitalism and Middle Class Political Conservatism.

5. The Dupes.—A Project of Municipal Bakeries and Butcher Shops.

1. In opposition to the principle of freedom of commerce and industry held generally throughout the United States, *Twentieth Century Socialism*,[1] a posthumous work by an American named Edmond Kelly, offers the following remedy for contemporary political, social and industrial unrest:

The Socialist organization recognizes both private and public property. Certain industries will be fully socialized. In such industries capitalist direction and operation will be wholly eliminated. The production of those things for which the demand is great, and especially those which can be most easily and fraudulently adulterated, will be socialized, as will be the case also in industries of which a monopoly is readily established. Other industries, as petroleum, will be given over to the regulation of a syndicate of workingmen with a board of directors in which the state will be represented in order to insure state control.

The private ownership of farms will be maintained, but private ownership in cities will be suppressed.

I mention this book, because it has attracted some attention, although the childish simplicity of its proposals is sufficient for an estimate of its value.

2. In the Socialist vocabulary the establishment of state and municipal monopolies is called "the organization of public service," and a distinction is made between legal monopolies and natural monopo-

[1] Longmans, Green & Co., New York, 1910.

lies. In the end, however, this difference disappears, for private property is to be confiscated, whether it be under the name of railway operation, mining or the distribution of hydro-electric power. Ministerial offices are to be abolished, and notaries, attorneys and bailiffs transformed into functionaries.

Socialists are quite willing to acknowledge that the refining of sugar or of oil is neither a legal nor a natural monopoly, but these industries, concentrated as they are in a small number of hands, are virtual monopolies. Therefore, if the government finds it worth while, they are to be converted into public services. Indeed, state and municipal monopolies, being easy to organize and to operate, are going to deprive the capitalists of magnificent profits, which will be restored to the community.

To economize in the budget is out of the question; by the income tax the incomes already subject to super-taxation will be so reduced that the state revenue will be absolutely insufficient to meet the needs of the social budget of either the Radical and Radical Socialist party or of the Socialist party. The only available remedy, therefore, will be to establish fiscal monopolies.

Socialists also hold that when any commodity is burdened with heavy indirect taxes, that commodity ought to be transformed into a monopoly; and apropos of this they have quoted inaccurately the following passage from Montesquieu: [1]

"In order to make the purchaser confound the price of the commodity with the impost, there must be some

[1] *Esprit des Lois*, book 13, chapter 8.

proportion between the impost and the value of the commodity; for which reason there ought not to be an excessive duty upon merchandise of little value. There are countries in which the duty exceeds seventeen or eighteen times the value of the commodity. In this case the prince removes the disguise—viz.—subjects plainly see they are dealt with in an unreasonable manner, which renders them most exquisitely sensible of their servile condition.

"Besides, the prince, to be able to levy a duty so disproportioned to the value of the commodity must be himself the vendor and the people must not have it in their power to purchase it elsewhere: a practice subject to a thousand inconveniences."

Montesquieu might have been able to approve without reserve the substitution of a monopoly for heavy taxes; but we no longer live in the times when two lines from Hippocrates or Aristotle decided our problems for us. We see, however, under what conditions and with what reserve Montesquieu explains the motives which cause the government to act in this manner. For their own purposes the Socialists have made capital of his text; but, after verification, it proves refractory.

Still another argument invoked to-day in favor of state monopoly is that it will suppress customs frauds. Yet in France there are districts in which the tax upon matches yields no receipts, and between the frontier of Belgium and France the principal occupation of the customs officers is preventing the smuggling of tobacco. It is in regard to just such a condition as this that Montesquieu has declared:

"Smuggling being in this case extremely lucrative, the natural and most reasonable penalty—namely, the confiscation of the merchandise—becomes incapable of putting a stop to it; especially as this very merchandise is intrinsically of inconsiderable value. Recourse must therefore be had to extravagant punishments such as those inflicted for capital crimes. All proportion, then, of penalties is at an end."

But it is said that in France tobacco is a lucrative monopoly (we do not talk so much about matches), and a monopoly of alcohol is being considered. As a result of the Socialist propaganda in 1904, the French Chamber of Deputies adopted the following resolution:

"Beginning with January 1, 1905, the government will introduce a monopoly of the manufacture, adulteration, modification and importation of alcohol.

"No new distillery may be created after the promulgation of this law."

That resolution remained on the table, but five years later, November 19, 1909, Georges Cochery, then minister of Finance, said:

"The question of an alcohol monopoly agitated some years ago and taken up with enthusiasm was soon afterward dropped. It has again been taken up, however, and an examination of the whole subject will shortly be made. (Loud applause from the extreme left, namely, the Socialists and Radical Socialists.)

"But before it is investigated still another problem may possibly be brought up—the question of an insur-

ance monopoly, or at least a monopoly of certain kinds of insurance."

When such words as these are spoken by a minister of Finance, they acquire a significance that skeptics, the indifferent and, with much more reason, interested parties (and in this case the interested parties are the whole body of consumers and taxpayers) would make a mistake in passing over. The vote on the resolution of the Chamber of Deputies shows of what aberrations majorities are capable.

In October, 1901, the Budget Committee, after having rejected a tax of 1 franc 50 per cwt. on crude petroleum proposed by M. Caillaux, minister of Finance, passed by seven votes against four and two or three absences a bill introduced by Marcel Sembat and worded as follows:

"Article 1.—The purchase, refining and sale at wholesale of petroleum are exclusive prerogatives of the state throughout its territory."

On the same day the Committee introduced the articles of the Sembat bill in its finance law.

On February 17, 1894, M. Jaurés introduced a bill signed by Thierry-Cases, Bepmale, Millerand, Viviani, Desfontaines, Sembat and Vaillant, as follows:

"The state has the sole right to import foreign wheat and flour.

"It will sell these commodities at a price fixed annually by law.

"It will sell flour at a price based on the price of wheat and also determined by law."

In 1903 MM. Paul Constans, Ed. Vaillant, Marcel Sembat and nine other Socialist deputies, "in order to put an end to the food crisis," introduced a bill, the first clause of which suppressed the customs duties upon wheat and flour, but clause 3 of which "charged the government with the duty of importing wheat and flour and buying it at home as well as abroad in quantities necessary and sufficient for national needs."

Clause 4 established a commission charged with organizing "within the shortest possible period a national commercial service to supervise the food supply, including especially provision by the government and the state and municipal storehouses of quantities of wheat and flour; the establishment of national and municipal mills and municipal bakeries; and finally cooperative agricultural production."

3. But side by side with the above audacities went a timidity of execution springing from past experiences.

In 1912, at the Congress of the National Railway Association, Albert Thomas, a Socialist deputy, advised the postponement of the purchase of lines other than the Western, saying:

"The purchase must be carried out in a different manner from that of the Western. It will be necessary to secure the financial autonomy of the system; the participation of the employees in the management; and also public representation therein. In order to conduct a campaign for nationalization, at present neglected, we must

have a solemn declaration on the part of an organized proletariat."

And M. Odinot adds:

"When the end of the franchise granted the companies by the state shall have come, a considerable effort will be necessary in order to bring about a general purchase."

Thus the leaders were anxious to temporize. They understood that for them promises and programs are worth far more than realization. Such a statement, however, in bald terms would have been a confession of lack of power and of charlatanism. They therefore sought pretexts for postponing action and in so doing furnished an illustration of two phases of Socialism: one underhanded and cowardly; the other—meant for exhibition—full of audacity.

In spite of the cautious advice of their leaders, however, the delegates answered by passing, almost unanimously, an order of the day providing for immediate nationalization.

In any event—if Socialist councils prevail—when the time comes for the roads to be turned over to the state, they will scarcely be worth the trouble of buying. As the contracts which bind them, however, do not expire for more than 40 years, some time must elapse before there is any further extension of the experiment of state operation of railroads.

In the United Kingdom, in the course of the discussion over the answer to the speech from the throne of February 15, 1912, Ramsay Macdonald, President

of the Labor party, presented to the House of Commons as a remedy for industrial unrest "the fixing of a minimum salary and the nationalization of the railways, mines and other monopolies." But he did not develop the last point of his amendment any further. Sir F. Banbury remarked that the Labor party had introduced this last bill only in order to prove to the electors that it was still alive. Mr. Robertson, parliamentary secretary of the Board of Trade, congratulated Ramsay Macdonald on the discretion with which he had supported it.

4. The Social Democratic Federation, the Independent Labor Party and the Fabian Society are all agreed in following up a resolution adopted in 1896 advocating nationalization of the mines, railways, canals, telegraphs and telephones; and the municipalization of water, gas, electricity, omnibuses, pawn shops and steamboats; the manufacture and sale at retail of tobacco, bread, coal, milk and other fundamentally necessary commodities; the construction of workmen's houses; the manufacture and sale of alcoholic drinks.

The International Socialist Congress held in Paris in 1900 passed the following resolution:

"That it is the duty of all Socialists to force a recognition in all projects for municipal reform that they are important only in so far as they foreshadow a collectivist government, and to force upon municipalities public services such as urban transportation, education, bakeries, medical attendance, hospitals, water supply, the distribution of power, public works, the police, etc."

In 1904 the Radical and Radical Socialist party adopted the same municipal program as that just quoted, but, in refusing to recognize that it had borrowed its program from the Socialists, the party even went so far as to claim the theories thus indorsed as it own *exclusive* property—under the circumstances a somewhat cool proceeding. February 10, 1904, M. Lafferre, then president of the Executive Committee of the Radical and Radical Socialist party, spoke as follows:

"The key to the municipal financial problem lies in the application to it of an economic program consisting almost wholly of a municipalization of all utilities in common use; gas, electricity, power, general transportation, etc."

Further on, M. Lafferre speaks with enthusiasm of "municipal fire insurance." He regrets that the Council of State has not permitted the establishment of "a municipal pharmacy at Douai"; he dilates upon the encouragement which should be given to the construction of cheap houses; he regrets that it is only with great difficulty "that municipalities can obtain authority to subsidize coöperative joint stock construction companies."

He adds finally: "Certain skeptical minds assert that our program is nothing but a sort of sweetened Socialism. It should be insistently repeated that this program is ours, altogether ours." After which he adds:

"In carrying out this program, already so vast, we invite the friendly coöperation of the Socialists. We

ask them, however, not to forget our prior claim to the idea that all property belongs to the public." A highly imprudent addition. It would have been impossible for M. Lafferre to prove such a statement, while the Socialists would not have had the smallest difficulty in demonstrating that the Belgians, Colins and César de Paepe, and the French Benoit Malon and Paul Brousse were the true founders of Municipal Socialism and the forerunners of the Fabians.

During the Socialist Congress at St. Quentin in April, 1911, M. Edgard Milhaud gave expression to the theory of the municipalization of service. To forestall any criticism regarding the meagre results achieved in the way of relief of taxation, he said:

"The object of municipalizing the forces of production should not be to reduce taxes, but to reduce the cost of living."

This statement ought to be kept in mind by those who cherish the delusion that they can solve the question of taxation by establishing state monopolies.

The Congress also passed two resolutions, one in favor of the purchase of the railways, the other in favor of municipal operation.

"Municipal services ought to be established in the first place for the advantage of the laboring people and the poor, for whom they ought to be provided at cost price if remunerative. And, if they yield profits through their use by other classes of the population, these profits ought to be utilized to extend municipal services in the labor interest, and, above all, to create and develop gratui-

tous education, sanitation, insurance, organized charity, and food."

Then in order that there should be no doubt as to the character of these claims it was added:

"By their municipal action, by increasing the guaranties of prosperity, liberty and the fighting chances of the proletariat, Socialists can add to the force of their claims as well as of the fight against capitalism and middle class political conservatism."

If interventionalists of every species "for their own reasons" help along the work of the Socialist, it will not be for lack of warning on the part of the Socialist party itself. But there are men who have a natural aptitude for and take pride in allowing themselves to be made dupes.

5. In August, 1911, the cost of living in France reached a crisis. Trouble broke out in the North,[1] and the Caillaux ministry found nothing better to do than to offer to the women and men who found bread, meat, milk, and vegetables too high this poultice:

"Municipalities may be authorized by a decree of the Council of State either to assist by loans in the creation of coöperative societies for the establishment of bakeries and butcher shops, or to establish themselves, and cause to be publicly operated, bakeries and butcher shops, under the conditions prescribed." [2]

[1] See E. Watelet, *Les Recents Troubles du Nord de la France*, 1912.

[2] Discussion de la Société d'Economie Politique, *Journal des Economistes*, December, 1911.

This brilliant plan received such an enthusiastic welcome that the Poincaré ministry speedily withdrew it.

The Council of State has now accepted the principle that economic action on the part of a municipality is illegal when it results in willful and systematic restraint of commerce and industry. It has made some allowances in special cases, but we hope that in the future it will adhere firmly to the principle.

CHAPTER II

BLUFF

Declarations of Edgard Milhaud.—Enumeration.—Government and Municipal Undertakings Are Traditions, Not Innovations.—Far from Being Proofs of Evolution, They Are Proofs of Retrogression.—Example: Germany.—Postoffice.—Forests.—Gobelin Tapestry and Sèvres China.—The Legitimate Share of Government and Municipality in General Economic Activity.

In November, 1911, Edgard Milhaud, editor of the *Annales de la Régie Directe,* declared in that publication:

"Operation by public groups—that is to say, government ownership—is being substituted more and more for operation by individuals or by private corporations. In the field of municipal operation we might mention water supply, gas, electricity, tramways, highways, sewage disposal, sanitation, undertaking, crematories, markets, department stores, savings banks, pawnshops, weights and measures, employment offices, real estate offices, cheap lodgings, slaughter houses, public baths, grain elevators, fish ponds, etc. To-day municipal operation of water, gas, electricity and tramways forms a total of 338 undertakings in Switzerland, 569 in Italy, and 1,805 in the United Kingdom. Water and gas enterprises alone reach a total of 3,210 in Germany.

"In the field of state undertakings we would mention the postal, telegraph and telephone systems, railways, canals, insurance, title guaranty and trust companies, banks of issue, mines, salt works and salt marshes, hydro-electric power, forests, various manufactures (powder, munitions of war, matches, tobacco, tapestries, fine porcelain, etc.), monopolies of several imports and exports (the camphor trade with Japan, Colombian emeralds, etc.). Moreover, one international federation of national undertakings was established 37 years ago, in 1874. This is the Universal Postal Union."

M. Milhaud is an exponent of that particular rhetorical method which consists in producing effects by piling up words one on top of the other in such a manner as to give an impression of large quantities in face of really small ones. If we are to credit his statement, people far advanced along the path of evolution are finding themselves carried away by an irresistible impulse to substitute public for private undertakings. Then he enumerates these undertakings for us.

Now municipal undertakings are by no means novelties; they are traditions, at least in the case of public roads, sewage disposal, cemeteries, common sewers, markets, public weights and measures, etc. The aqueducts of the Romans prove to us that their water supply was a municipal affair. Therefore, as novelties, we have the distribution of gas, electricity and the tramways.

He quotes Germany as having the greatest number of municipal undertakings. These also are traditions and not innovations. The case is the same in Switzer-

land, where the paternal policy of the cantons has never established a definite limit between what belongs to the individual and what to the public domain. The number of local governments in the United Kingdom which have taken over such enterprises is astonishing; but experience is decidedly against any further extension of similar activities on the part of municipalities. In France, up to the present, and despite all the allurements of the Socialists, the municipalities have shown themselves distrustful.

As for national undertakings, Edgard Milhaud points to the postal, telegraph and telephone services.

The two last mentioned undertakings, except in the United States, are integral parts of the postal system. The Assyrians also had a government postal system, not for the use of the people, but for the service of the king. A similar institution was established and for the same purpose by the kings of France and other sovereigns. It is a government tradition. The majority of the railway lines still belong to private companies. As for insurance, there is scarcely one system under public management outside of the municipal fire insurance in Germany. Because Prussia is a great mine owner, it does not follow that that country is pointing out the future economic course of other peoples. The public forests are a remnant of the feudal régime.

Tobacco and match monopolies are limited to one or two countries. The Gobélin tapestry and the Sèvres porcelain are monarchical heirlooms.

In Austria, toward the close of 1911, a bill for the nationalization of coal mines was presented. But

Superintendent Holmann, representing the government, gave it as his opinion that the nationalization of Austrian coal mines would require an amount of capital so extravagant that it would be impossible to procure it. Moreover, he considered that it would be a mistake to hope for large results from such nationalization, as it would have all the economic defects and inconveniences of similar monopolies everywhere. The project was, therefore, abandoned.

And yet M. Milhaud can say: "The unceasing march toward nationalization and municipalization is supported, stimulated and commanded by economic evolution."

Neither government nor municipal monopolies are novelties; they are antiques. To represent them in the light of consequences of modern economic changes is to commit a solecism. They are not indicative of evolution, but of retrogression.

As a matter of fact, if throughout the world we compare the economic activity of private undertakings with those of governments, either local or state, the latter appear almost insignificant. The 338 Swiss municipalities may be each in itself most interesting in its public economic activities. But Switzerland has only 3,763,000 inhabitants, and the importance of their activities is therefore limited.

CHAPTER III

RESULTS OF EXPERIENCE

The Meagreness of the Socialist Program.—Those Who Have Office and Those Who Want It.—The Programs of Government and Municipal Operation Condemned by Experience, and from the Double Point of View of Quality and Cost of Service.—State and Municipal Ownership Show Incontestable Inferiority.—The Utility and Danger of Such Experiments.

Socialist programs are pitifully meagre. They would not amount to anything but for the weakness and hunger for popularity of candidates for office and the desire of deputies, municipal councillors and mayors to eliminate their competitors. Political ambitions form the cornerstones of such programs, and, if officials did not find in them promises of an increase in power for themselves and of employment for their sons, sons-in-law and nephews they would vanish in air.

Against a wider extension of public economic responsibilities nothing but experience stands in the way. But it condemns unreservedly any such extension. From the point of view, both of the quality and of the cost of service, state and municipal ownership show incontestable inferiority to private enterprise.

The experiments with State and Municipal Social-

ism have resulted so disastrously that their opponents might even see an advantage in hastening and multiplying them. Unfortunately human experiments are not like those of a laboratory. When they occur they invariably displace and break something. They provoke passions; they create conflicting interests. They exert material influences which may be ruinous, and moral influences which can be even more destructive. After men have become addicted to habits of mendacity and spoliation, it is difficult to teach them not to look upon the services that they render as pure and simple sources of remuneration.

CHAPTER IV

THE STATE A DISHONEST MAN

1. In Foreign Affairs Machiavelli Is Still Our Moral Guide.—In Domestic Affairs the End Justifies the Means for Socialists and Interventionalists.—The Sovereignty of the "End in View."
2. Bismarck, Ramsay Macdonald and the Railways.—MM. Pelletan and Waddington.
3. Our Professors of Law, the Heirs of the Lawyers of Philippe Le Bel.—Partial Confiscation of the Railways. —Approval of the Principle by Paul Pic.
4. The Agreements of 1883.—The Guaranty of Interest of the Orléans and Midi Railway Lines and M. Barthou. —Decree of the Council of State.—The Millerand Interpellation, 1895.—The Political Crisis.—Governmental Disregard of Judicial Decisions.—Last Resource of the Orléans Company.—The Confirmatory Decree of the Council of State of July 26, 1912.—Anarchistic Lack of Conscience.
5. Giolitti and the Insurance Companies.—National and International Confiscation.—A Legal Excuse.—M. Jèze.—"An Administrative and Not a Fiscal Monopoly."—A Legal Error.—Precedents for Confiscation. —Progress Condemns Precedents of Rapine and Violence.—Return to Confiscation a Proof of Retrogression.—Individual Ownership One of the Conditions of National and International Law.—An Error of Fact.—Profits of the Italian Monopoly.
6. The Italian Law of 1903.—Repeal of Municipal Concessions.—The Congress of Municipal Undertakings.

7. The Rambla Case.
8. Equal Tolls on the Panama Canal.—Article 8 of the Clayton-Bulwer Treaty.—The Hay-Pauncefote Treaty.—Exemption of American Ships Engaged in Coast Trade.—The Lodge Bill.—Bad Faith.—A Lobbyist.—British Protests.—Mr. Taft.—Supreme Court of the United States.—Under the Circumstances There Can Be No Third Disinterested Party.
9. The Discomfiture of the New York Street Railways.—Restrictive Legislation in New Jersey.—Police Power, Private Property, and Constitutional Guaranties.
10. Examples of a Model Employer.

1. It is still generally understood that in matters of foreign policy the statesman should have no moral guide other than Machiavelli. In regard to domestic affairs the unanimity of opinion is scarcely so perfect. Nevertheless, statesmen who believe that every government ought to be "an honest man" are still the exception; and not alone Socialists, but also Interventionalists are characterized by utter unscrupulousness when the question arises of substituting collective for individual action. The end justifies the means. To objections made in the name of property rights and of respect for contracts, the end in view is declared sovereign. Let me cite a few characteristic facts in proof of such a statement.

2. Bismarck organized a campaign against the private railway companies, diverted traffic from them, bought their stock secretly, and molded public opinion into favoring the purchase he had planned.

The parliamentary chairman of the Labor party in Great Britain, J. Ramsay Macdonald, in a debate with

Hilaire Belloc in Memorial Hall, said: "M. Belloc proposes to take £19,000,000 ($92,530,000) from the excise duties in order to purchase railways. Railway stock will immediately rise to a ruinous figure. It would be better to bring down the value of the stock by an attack upon their income." [1]

Bismarck and Ramsay Macdonald have the same moral code when it comes to government action.

In France Camille Pelletan has declared that "contracts must be turned topsy turvy"; and even moderates like Richard Waddington share his opinion.[2]

3. Advocates can be found for any cause. It is therefore not strange that legal experts, descendants of the lawyers of Philippe Le Bel, maintain that the government can do anything since it creates the law. Legalists like R. Jay have even maintained the right of the state to expropriate private enterprises without indemnity.

As long as ministers respected the phrase, "an honest government," and were resolved to hold to the contracts by which they were bound to private companies, they took little interest in the labor question. The control, organization and remuneration of employees was regarded as the affair of the companies concerned, and not of the minister.

But in 1897 the Chamber of Deputies passed the Berteaux-Rabier-Joures bill, modifying the labor conditions of employees and giving to them a legal right

[1] *Labour Leader*, May 12, 1911.
[2] See Yves Guyot, *Les Chemins de Fer et la Grève.*

to the customary pension after 20 years of service. From that moment the government found itself defenseless. Since then railway employees have learned to go to their deputies with their demands. The deputy in his turn will bring all possible influence to bear upon the government, which, under this pressure, will tamper with the existing contracts. Yet, despite the cracks in them, the contracts still hold. Up to the present the government has not been able to impose upon private companies the reinstatements of discharged employees to which the state system has been obliged to submit. This has been the government's punishment for its lack of respect for a contract.

The rights of the existing private railways in France have been directly threatened by a bill introduced by M. Augagneur at the beginning of November, 1912, and thus worded:

"Article 1.—Nomination of each of the following railway officials shall be submitted for ratification to the minister of Public Works by the chairman of the board of directors:

"a. Directors, assistant directors.

"b. Chiefs of the administrative, transportation and supply departments of the road.

"The same rule shall apply to employees carrying on for the time being the duties of the above-named officials for a period of not less than three months.

"Nominations shall be made for a period of six years and shall be renewable.

"Article 2.—All modifications of the administrative organization of the roads and all changes in the duties of

the employees mentioned in Article 1 shall be subject to the ratification of the minister of Public Works.

"Article 3.—If, after a delay of three months from the date of the promulgation of the present law, or from the date of a vacancy in one of the positions mentioned in Article 1, the minister has not been able to ratify the names proposed by the companies, he shall proceed with the duty of nomination himself.

"The same rule shall hold if the ratification of the names proposed by the companies has not been made within three months preceding the normal end of the term of office of the employees mentioned in Article 1.

"Article 4.—After a delay of six months from the date of the promulgation of the present law, the companies shall present for the approval of the minister of Public Works:

"1. The regulations governing the administrative organization of each line;

"2. The regulations governing the methods of recruiting and promotion, as well as the salary list, of employees;

"3. The regulations governing organization and methods of procedure of the councils of discipline and the commissions on reforms.

"All modifications of the regulations so approved must likewise be ratified.

"In any case where the ratification above provided for is accorded only after reservations involving modifications or additions not accepted by the company, the question shall be decided by a decree of the Council of State.

"Infractions of the present law shall be prosecuted

and punished in conformity with the provisions of Section III of the Ordinance of November 15, 1846."

The above plan of partial confiscation is a bold violation of the contracts between the government and the companies. Nevertheless, Paul Pic, professor of industrial law at Lyon, does not hesitate to declare that "this measure is in itself perfectly justifiable." As, however, "it would run the risk of leading us into a precipitate purchase of all the lines, as well as on account of the strenuous resistance of the companies," he advises a delay.[1]

4. Few ministers have any desire to adhere loyally to the contracts of 1883 with the railway companies. In 1894 M. Barthou, then minister of Public Works, on the occasion of a bond issue by the Orléans line, ordered the company to add to the notices relative to the guaranty of interest an announcement that this guaranty would expire in 1914. The company referred the question to the Council of State, holding that the government had granted this guaranty not only up to 1914, but to the expiration of its franchise, in 1956. By a decree of January 11, 1895, based on opinions rendered by M. Mayliel and M. Jagerschmidt, the council of state handed down a decision in favor of the company.

We give the final summing up and the provisions of this decree of 1895:

"Under the circumstances, it must be acknowledged that the guaranty of the railway company from Paris to

[1] *Les Grandes Régies d'État,* by Paul Pic, *Revue d'Économie Politique,* July-August, 1912.

Orléans has a period to run equal to that of its franchise, and that, by requesting the company to specify upon its bonds that this guaranty will end on December 31, 1914, the minister of Public Works has misinterpreted the rights of the company arising from the contract of June 28, 1883. It is decided, therefore, that the order of the minister directing the company to add to its notices relative to the guaranty of bonds an announcement that this guaranty will expire December 31, 1914, be annulled."

Instead of submitting gracefully to this decree, M. Barthou handed in his resignation as minister of Public Works. On January 14, M. Millerand called Minister Dupuy to account as having failed in his duty in not enforcing the ministerial order, and ultimately the Dupuy ministry fell because it refused to disobey the decree of the Council of State even at the urgent demand of its party. Thus the Council of State overthrew a minister and afterward a ministry, while the affair led further to the resignation of Casimir Perier, President of the Republic.

The Chamber of Deputies, in order to appear to be doing something, appointed a commission charged with discovering whether there was any cause for the prosecution of M. Raynal, who, as minister of Public Works in 1883, had signed the original railway contracts, for high crimes and misdemeanors committed during his term of public office. In conformity with the unanimous opinion of the members of the commission, M. Raynal was not prosecuted.

Despite the definite character of the decree of 1895, the ministry of Public Works, in an official publication

of the *Statistique des Chemins de Fer Français,* subdivision 9, bearing the title, *Conditions Principales des Concessions,* has continued to declare that the guaranty period of the Orléans and the Midi companies would expire December 31, 1914.

On March 16, in the Chamber, Maurice Sibille having referred to the claim of the government that the guaranty would expire December 31, 1914, the minister of Finance exclaimed: "There is no question about it." Thus we see the ministry testifying to its exalted respect for the decision of the Council of State.

In the belief, however, that the question had been settled by the decree of 1895, but wishing to avoid any misundertanding as to its credit, the Orléans company demanded from the minister authority to publish upon its bonds a notice indicating that the guaranty would expire only with the franchise in 1956. Upon the refusal of the minister, the case went back again to the Council of State, which, by a decree rendered July 26, 1912, decided, as in its previous decree of 1895, in favor of the company.

The position finally taken by the ministry was that litigation could not be considered as existing in fact until 1914, the year which, according to the government, would see the end of the guaranty.

5. In Italy, as we have already seen,[1] M. Giolitti was anxious to follow the example of Germany, France and Great Britain in establishing old-age pensions. But where should he find the resources? Nothing simpler. The insurance companies were earning

[1] See above, Book I, Chapter 23.

dividends. The state must force them out and substitute itself for them.

While shrewd Socialists were disputing whether the various phases of expropriation should be brought about with or without indemnity, M. Giolitti decided the question: No indemnity for existing insurance companies. The Italian companies were forced to bow before the "mightier than thou" of the government.

But it was quite another matter in the case of the foreign insurance companies. The Italian government, however, remained deaf to the protests of the English, French and German governments.

This abuse of power, as a preliminary to the insurance law, inspires no great confidence in the government's respect for acquired rights. Moreover, why should this respect be any greater with regard to those who insure themselves with the state? The seizure by the French government of the funds of the "Invalides" [1] is notorious. Undoubtedly the major part of the returns from the monopoly will go into the coffers of the Italian government.

The Italian government refused all compensation to foreign companies, judging—and rightly—that their several governments would not go to war over so small a question and that, consequently, it need take no account of protests nor admit of any international jurisdiction. Thus its Socialist character is given the final touch and proof is given thereby that expropriation without indemnity may be not only national but international.

According to M. Jèze, professor of financial law in

[1] A navy relief fund.

the University of Paris, if the affair had been brought before the tribunal at The Hague, Italy "could claim that the monopoly so constituted is an administrative, and not a fiscal monopoly, as an excuse for not having paid an indemnity."

I respect M. Jèze's opinion. But from the point of view of the wrong done me by the state, what difference does it make what excuse the state offers me? According to the premise of M. Jèze, the state would have the right to confiscate anything from which it could draw a profit. The state could seize my meadow to set up target practice without paying me anything. Article 545 of the Civil Code says: "No one can be compelled to give up his property except in behalf of the public interest after a just compensation has been paid." Business, the foundation of commerce, constitutes property as certainly as real estate. The state has no more right to confiscate the one than the other under any system which rests on respect for private property.

M. Jèze relies for a precedent on the prohibition of the use of white lead, which resulted from a serious agitation on the part of a number of competitors conducted by a member of the Labor Confederation. The whole matter proved nothing but the shameful cowardice of the French Parliament.[1] The prohibition of the use of white phosphorus in the manufacture of matches is based on a foolish prejudice contradicted by the facts. As for the prohibition of the sale of absinthe, it must be acknowledged that that one act on

[1] Yves Guyot, *La Céruse et la Méthode Expérimentale.* Brochure, Paris, F. Alcan.

the part of the state does constitute a precedent in favor of the arguments of M. Jèze; but human progress in all the epochs of history condemns precedents of rapine and violence committed by governments against individuals. A return to the mediæval customs of confiscation can indicate nothing but retrogression.

M. Jèze is right in thinking that the limitation of hours and working days, as well as the minimum wage, are partial confiscation. But he is also presenting a formidable argument against all legislation called social, which is, in fact, only a step toward the suppression of individual property and the introduction of Socialism. Our codes are still founded on respect for personal property, however, and he acknowledges that such respect is one of the indispensable conditions of international law.

Therefore the Italian government has been guilty of an abuse of power in confiscating the business of life insurance companies; and, in the case of the foreign companies, at least, it owes them some reparation.

The argument that the Italian government did not expect to draw any profit from the insurance monopoly is inaccurate. If there had been no hope of reaping any profit the monopoly would never have been created.

Article 14 of the law provides that there shall be taken out of the net annual profits: (a) A sum of at least 1 per cent., which shall be devoted to the ordinary reserve; (b) a sum to be applied, in conformity with the statutes, to the guaranty reserve and any other contingent reserve; (c) a sum to be assigned to the administrative, technical, and soliciting staff of the

Fund. This sum shall be less than 5 per cent. The remainder of the profits will be paid into the National Insurance reserve for invalid and aged workingmen. The profits of the National Fund are to be exempt from the income tax.

Thus the law indicates in every line that the monopoly is expected to be profitable. Not only does it dispose of these profits but it exempts them from taxation.

In the *Bulletin de l'Institute International d'Agriculture,* edited in part under the direction of the ministry of Agriculture, I find an article which proclaims the new law to the world in the following phrases:

"The ultimate purpose of the new law is to create another source of revenue for the government by the monopoly on life insurance." (May, 1912, page 51.)

In the light of these excerpts, what becomes of the argument of M. Jèze, based on the disinterested aims of the life insurance monopoly?

The same article also contains the statement that the law is designed "especially to devote the profits arising from this monopoly" to the insurance fund for pensions.

M. Jèze has set down an error of fact in order to justify a legal theory based on nothing but a casuist's distinction.

6. The law of March 29, 1903, gives to the Italian local governments authority to buy up franchises whatever may be the time they have still to run. M. Giolitti, the author of the law, said: "This is not a ques-

tion of expropriation, nor of lease, but a question of the repeal of a franchise in the public interest: and this difference permits us to be more liberal toward the municipality which makes use of its full right of appeal."

What is this right of appeal, except the breaking of a contract by one of the parties to it? And because it suits the convenience of this party to break the contract, it is necessary "to be very liberal with it." What are the guaranties of the other party?

Article 21 declares that the right of repeal exists after a third of the period of the full duration of the franchise may have elapsed; in any case, after 20 years, but never before. The article adds that municipalities must pay an equitable indemnity in which the following items shall be taken into account:

First: The value of the installation and its equipment. Second: Advances and subsidies paid on premiums by the municipality. Third: Loss of profits reduced to the present value (at the legal rate of interest) of annual sums equal to the average of the profits for the five years last past for as many years as the concession has still to run, the number of years, nevertheless, not to be more than twenty—the amount of these annual sums to be based on the average of the net revenues reported in the personal property tax declarations, omitting the years of maximum and minimum profits and deducting interest on capital.

At the first congress of Italian municipal undertakings a lawyer, David Ferrari, protested in a long report against the third paragraph of the article above quoted, which he declared opposed to the spirit of the

law. The profit arises from the concession. When the concession ceases so does the profit. Therefore, the "basis of the accumulation of surplus profits by reason of the duration of the concession" ought to be struck out. Another lawyer, Mario Cattaneo, was astonished "that on the sole ground that one of the parties was a public body such an attack could be made on the doctrine of the inviolability of private property." He demanded, therefore, that "respect be shown in the case of existing contracts to all the rules of private law," and that the bill be applied to future contracts only. The congress adopted unanimously the conclusion of the Ferrari report, demanding that "the basis of the accumulation of surplus profit by reason of the duration of the franchise" be omitted.

During the second congress, held in Rome in June, 1911, Giovanni Montemartini, attached to the mayoralty of Rome, insisted upon the necessity of still further modifying the law of 1903.

7. Here we have a new example of government morale:

The president of Uruguay, M. Battle y Ordonez, a partisan of the extension of state activities, desired to establish a national bank. Then, in order to give his bank the credit indispensable to institutions of similar character, he proceeded to teach everybody what fools they would be to trust to contracts entered into with Uruguay by giving them an object lesson in the so-called "Rambla affair."

Now a tyrant can do many things—anything he may choose, if you will. But a state, however tyran-

nical it may be in spirit, may come in contact with one insurmountable obstacle. Confidence cannot be forced.

The trouble which has arisen between the Rambla Company and the government of Uruguay has served to prove that the latter has either never heard of or never pondered the precept of M. Thiers: "The state must act like an honest man."

In June, 1913, the *Matin* published an account of the Rambla affair, which I summarize:

In 1910 an Anglo-French association, known as the Rambla Company, had renewed a franchise and a contract dating from 1899. Its object was the acquisition of 145 hectares (358 acres) close to the sea for the construction of a public promenade (Rambla).

Of the 42,500,000 francs which the work was to require, 35,000,000 francs was guaranteed, capital and interest, by the state of Uruguay.

There appeared to be entire harmony among the parties to the affair; yet, at the last moment, the Uruguayan government refused to sign the contract unless an article (No. 3), containing an acknowledgment on the part of the company of the right of the state to introduce such modifications into the plans as it should deem fitting were inserted.

That the company was imprudent enough to consent to this clause has never been denied; but it had this excuse at least. It trusted the state to act like an honest man.

The utter lack of any basis for such confidence was almost immediately proved when the state issued a decree adding to the specifications the taking over by the company of 137 hectares (338 acres) facing the

sea, 80 hectares (198 acres) of which it put up for sale. The minister of Public Works called this a slight modification.

The company has determined to resist the demands of the government of Uruguay, and has claimed the intervention of the English and French governments. These governments can, of course, enter remonstrances, but it would be a mistake to hope for much effect from them.

The party most interested in not violating its contract would seem to be Uruguay, for the principal guaranty that foreign creditors or parties to contracts with the state have is the self-interest of every government in not ruining its own credit.

8. The United States has always considered that a canal between the Atlantic and Pacific oceans was among the probabilities of the future. In 1835 the Senate ordered the President to open negotiations with the governments of other nations, and more especially with those of Central America and New Granada, with the object of giving efficient protection to the promoters of such a canal.

A similar resolution was adopted by the House of Representatives, in 1839, following a petition from the merchants of New York and Philadelphia. In 1849 ratifications of a treaty between the United States and the Republic of New Granada, subsequently and successively known as the United States of Colombia and the Republic of Colombia, were exchanged, of which the principal provision was the guaranty of the neutrality of the Panama Canal.

April 19, 1850, John M. Clayton, secretary of state, and Sir Henry Bulwer-Lytton, British minister to Washington, signed the treaty relative to the canal that an American company had undertaken to construct by making use of the St. John River of Nicaragua. This treaty specified that the United States should act as a trustee for the other nations, but that all the nations should have the same privileges in the use of the canal. In transmitting this treaty to the Senate President Polk emphasized the provision for equal rights, assured by Article 8 of the treaty.

This Article 8 was again expressly endorsed in the declaration preceding the Hay-Pauncefote treaty, concluded on November 18, 1901, when the American government took over the completion of the Panama Canal. Moreover, it had been previously confirmed by the declaration of President Cleveland, in his message of 1885:

"Any passage of communication between the two oceans ought to redound to the advantage of the entire world for the benefit of humanity. It ought to be removed from all risks of domination by a single power. It ought never to become an occasion for hostility or the prize of warring ambitions."

Nowhere, in the various diplomatic acts of the United States can there be found any reserve in favor of special advantages for certain ships of certain nations. Nevertheless, in the House of Representatives and in the Senate of the United States, in the summer of 1912, various proposals were discussed looking to the

exemption of American ships from the tolls which must be paid by the ships of other nations.

Finally the House of Representatives adopted a resolution declaring that no toll should be levied upon American ships engaged in the coasting trade. Later another clause was introduced into the bill providing "that no toll shall be levied upon American ships, which, while engaged in the transport of merchandise, can be requisitioned by the President, with the consent of the owners, in case of war or public need." Senator Lodge, in the month of December, 1911, had suggested even more skilful tactics: American ships passing through the canal should indeed pay duties; thus the Hay-Pauncefote treaty would be respected to the letter. But the United States should reimburse these ships at the public expense. For a long time the protectionists had been demanding subsidies for the United States merchant marine. The occasion was, therefore, too good to be lost. The other nations could scarcely protest against a granting of subsidies to her merchant marine by the United States.

"All these schemes to escape the obligations of the treaty," says the New York *Journal of Commerce,* "will be considered as acts of bad faith. The campaign for the violation of the Hay-Pauncefote treaty has been engineered by a lobbyist, who receives a salary of $25,000 a year, and unlimited credit with the members of Congress."

In order to justify them appeal has been made to the Monroe Doctrine, but Monroe never dreamed that the doctrine bearing his name would ever be given such a broad construction.

The bill, as finally passed by the House of Representatives, extended that provision of the Interstate Commerce Act which forbids any railway company to have an interest in "any method of water transportation" which "is or can be a competitor." However, the Senate justly decided that there was no analogy, and therefore substituted for that particular clause the following provision: "No ship possessed or controlled by a railway, or in which a railway may have any interest, will be admitted into the canal, if it is engaged in the United States coast trade."

On the strength of the Hay-Pauncefote treaty Great Britain addressed a protest to the United States government. The Secretary of State, Mr. Knox, transmitted it to the senate:

"According to the document in question, the government of his Britannic Majesty is of opinion that the act exempting the American merchant marine from the payment of duty would constitute an infraction of the Treaty, and that, if the duties were only collected in order to be immediately refunded, the principle would be the same as though these duties were altogether abolished.

"The opinion is also expressed in this document that to collect duties in order to refund them immediately, although not contrary to the letter of the Treaty, would be in opposition to its spirit. It is admitted that there is nothing in the Hay-Pauncefote Treaty which prevents the United States from subsidizing its merchant marine, but it is claimed that a great difference exists between a general subsidy of the entire merchant marine and that of a part only, engaged in a special branch of the service, and a proportional subsidy reckoned according to the

frequency of the passages through the canal of the ships so subsidized.

"Such a subsidy could not, in the opinion of the government of his Britannic Majesty, be in conformity with the obligations of the Treaty.

"In so far as the bill exempting the ships engaged in the coasting trade is concerned, the document declares that no objection would be made if navigation were organized in such fashion that only those ships actually devoted to the coasting trade reserved for American ships would benefit by this exemption. It appears, nevertheless, that the government of his Majesty considers as impossible the establishment of regulations tending to discriminate between coastwise and other American ships; consequently this exemption would be an infraction of the Treaty."

The United States Senate voted, by a large majority, August 8, 1912, in favor of the clause exempting the ships of the United States engaged in the coasting trade from all tolls.

Moreover, the majority which voted for the violation of the Hay-Pauncefote Treaty declared that it would refuse to submit the question of treaty violation to arbitration. Its members declared that "this question is not a diplomatic one," under the pretext that the exemption concerned only American ships engaged in the coasting trade; and that it was, therefore, a question of a domestic nature, of no interest to any foreign power, and, consequently, does not come under the jurisdiction of The Hague tribunal. It is easy to understand why the majority of the senators waived arbitration in this connection. The United States

would have found itself alone on the one side and all the rest of the world on the other.

The whole situation has been summed up in the clearest possible manner by Senators Root of New York, Burton of Ohio, and McCumber of North Dakota, all of whom made the antithesis perfectly clear: After having accepted every advantage of the Hay-Pauncefote treaty, the United States refuses to accept any of its responsibilities.

But Senators Cummins, Works, and Chamberlain answered without the smallest attempt at a hypocritical softening of their argument:—"The Hay-Pauncefote treaty has done nothing for us, and, as it is in our way, there is nothing to do but to break it."

The Evening Post, of New York, was entirely right in saying: "The vote of the Senate does a greater injury to the United States than that which would have resulted from a naval defeat in the waters of Colombia." It is true that it is only a moral defeat; and unscrupulous Machiavellis will never be able to understand the harm that a defeat of this nature can bring to their country because, as a general rule, the consequences are not felt until a long time afterward.

This was the time for Mr. Taft to show himself a great statesman. But the dispatches immediately announced that, if the Senate and the House of Representatives were in accord, he would sign the bill while recognizing the right of foreign states to appeal to the Supreme Court of the United States.

It is now announced that Mr. Wilson will not follow the example of his predecessor. We must give him credit for that.

I have the utmost respect for the Supreme Court,[1] but this Supreme Court is composed of nine American judges, sitting in America, and, in this particular case, its judgment must necessarily be tinged, and very strongly, with an excusable bias. It forms a part of one of the parties to the issue, and it cannot be considered as a disinterested third party.

It is true, and this is the weakness of The Hague tribunal in regard to this question, that there is no disinterested third party, because all the nations have an interest opposed to that of the United States. And we must admit also that, from the point of view of domestic policy, the political bodies of the various states have not always shown themselves more scrupulous.

9. In a protest, addressed to a committee of the State Senate, Frank Bergen, general counsel for the Public Service Corporation of New Jersey, accuses the partisans of the municipalization of the street railways of New York "of being delighted with their (viz., the Public Service Corporation's) discomfiture" brought about by laws passed to obtain just such a result. Private enterprises having developed to an enormous proportion the state property of New Jersey, from 1870 to 1906, members of the State Senate felt that the moment had come to confiscate them. Toward this end Senator Hunderton proposed Amendment 64 to the Crimes Act, drawn up in such a manner "that inno-

[1] See *Les Principes de '89 et le Socialisme. La Democratie Individualiste.*

cence no longer constitutes a defense against a criminal accusation." [1]

Justice Brewer, of the Supreme Court of the United States, has declared:

"The police power has become the refuge of every serious attack against private property. Every unjustifiable charge from the point of view of eminent domain, or from the fiscal point of view, shelters itself behind the excuse of police power; but the police power cannot escape from the constitutional guaranties of private property."

Hygiene, sanitation, "the conservation of the race," etc., are only new forms of the cry of *salus populi* which has served to justify all the tyrannies of the ages.

10. The "model employer" furnishes some very bad examples. Those who speak in its name can preach economy to individuals; but they cannot hold it up as a model, because it is wasteful and runs into debt. Its partisans can preach economic morality to individuals; but they cannot illustrate their texts by appealing to state morality, because the state too often "acts like a dishonest man," not only in foreign affairs, but even in domestic affairs.

[1] *Annals of the American Academy of Political and Social Science*, May, 1908. *Legislative Restriction in New York*, page 134.

CHAPTER V

CORRUPTION

Multiplication of Opportunities for Corruption.—The German Railways.—Mr. Seddon on New Zealand.—Taussig. —Dangers of Public Enterprises in a Democracy.— Ring Leaders.—Importance of Their Rôle.—The Way to Succeed.

The more governments and municipalities increase their functions and interfere with the economic life of the group the more the opportunities for corruption will multiply.

M. de Miquel, Prussian minister of Finance, who was compelled to hand in his resignation after the failure of the Imperial Canal projects, declared some time afterward:

"If the separate government railways become the property of the Empire, the Reichstag will claim the right of establishing and revising railway rates. The day on which it obtains this right will see the beginning of corruption on a grand scale in the German elections. Already the temper of a large number of the electors is such that they are sending to the Reichstag many representatives who never ask how any given measure will serve the interest of the nation at large, but simply how it is going to be regarded by their local constituents. The concession to the Reichstag of the right to fix the

railway rates would be as disastrous for our whole political life as for the economic development of Germany."[1]

In their book on New Zealand Le Rossignol and Stewart say:

"He (the Right Hon. R. J. Seddon) taught the people in every part of the colony to 'stand in' with the government if they wished to be remembered in the distribution of the loaves and fishes."

Thanks to this practice, Mr. Seddon himself managed to remain at the head of affairs for a very long time.

Concerning the administration by the state or municipalities of "public service industries," F. W. Taussig[2] observes that the title is applied to certain enterprises only, as railways, telephones and telegraph, water, gas and electricity. In the very beginning, in the United States, competing private enterprises had invariably provided these services. Little by little, by virtue of the law of increase of returns, these enterprises united.

Here we meet again the third incentive of all human action. "For all except the very few of extraordinary gifts, the spur of gain is not only powerful, it is indispensable." Progress in industry is largely due to inventors and administrators, but the venturesome capitalist, ready and eager to risk his wealth in new ways,

[1] See the discussion relating to the Prussian railways in the series of volumes, *Le Marche Financier*, by Arthur Raffalovich.
[2] *Principles of Economics.*

is equally necessary. We owe little thanks to any state that the world has been transformed through the railways, steam navigation, the industrial use of steam, etc. This transformation has been brought about by individuals. "Electric traction was easily started in England as a public business, after private enterprise in the United States had shown how the thing could be done."

The transmission and distribution of hydraulic and electric power call for an amount of enterprise and vigor which public officials are not at all likely to supply. However, Mr. Taussig would suggest that such resources should never be given in perpetuity by the public. There should be no unlimited franchises.

Mr. Taussig speaks as follows of the qualities demanded of administrators of undertakings in a democracy, and he is full of misgivings as to the corrupting power of such undertakings:

"It is often said that corruption in our municipal and state affairs is caused by private ownership of the great monopoly enterprises, and that public ownership is the cure. To reason so is to mistake the occasion for the cause. The occasion is the great fund of gain which the monopoly enterprises can yield; the cause is political demoralization. It matters little whether the initiative in corrupt ways is taken by the heads of the monopoly corporations or by the public officials—whether the first step be bribery or blackmail. In either case it is the existence of venal legislators and administrators that brings coarse and characterless persons into the management of the 'public service' industries. Honorable men withdraw from the unsavory affairs and are replaced by those less squeamish. The root of the difficulty is that

a bad political situation invites corruption, not that corruption makes the political situation bad."

The true way to abolish corruption is to suppress the opportunity for corruption. But the more government and municipal undertakings increase in number and in importance, the more these opportunities will multiply.

Government undertakings are a terrible source of temptation to the ring-leaders among their employees. They know that fear has a value, and they become exploiters of the fears of their superiors, the deputies and the ministers. And, although all their plans may not succeed, it is more than enough that any of these demagogues have obtained avowed advantages. Others have obtained secret advantages.

The employees of the navy yards and of the city halls gaze with admiration at a man like M. Goude, and more than one young clerk of the navy department is saying to himself:

"That is the way to succeed. Let us imitate him."

CHAPTER VI

NATIONALIZATION OF PUBLIC UTILITIES AND THE FOUNDATION OF GREAT FORTUNES

New Zealand.—Australia.—Great Fortunes

In a lecture, delivered on December 15, 1910, before the Fabian Society, G. Bernard Shaw gives the following definition of Socialism:

"A state of society in which the income of the country shall be divided equally among the inhabitants without regard to their character, their industry or any other consideration except the fact that they are human beings."

The partisans of public ownership hold that the realization of such a conception would be a step toward the millennium.

They cheerfully declare that New Zealand contains neither paupers nor millionaires. Now, among the New Zealanders who have recently died, Jacob Joseph left a fortune of £300,000 ($1,461,000); that of Archdeacon Williams amounted to £420,000 ($2,045,400); that of the Hon. W. W. Johnston to about £500,000 ($2,435,000). According to an estimate, based on a comparison of inheritances, Le Rossignol and Stewart calculate that one-half of one per cent. of all the fam-

ilies, each family being reckoned as having five members, possesses 33 per cent. of the total wealth of New Zealand. And, despite the growing tax upon land, and the division of great estates, this inequality is increasing.[1]

In Australia the wealth is very unequally distributed. In New South Wales 1,000 individuals, representing 0.40 per cent. of the population, possess £130,000,000 ($633,000,000), or, in other words, an average to each individual of £130,000 ($633,000), while the sum of their total fortunes amounts to 35 per cent. of the whole private wealth of the state. In 1904-1905 the half of all the private property of the state belonged to 3,000 people at most.[2]

Able men make great fortunes in these countries as other able men have made them in Turkey and in Russia.

[1] *State Socialism in New Zealand*, page 299.
[2] *The Official Year Book of New South Wales*, 1904-1905, page 543.

CHAPTER VII

DISINTEGRATING CHARACTER OF PUBLIC OPERATION

1. Individuals Are Industrious and Economical; Administrative and Political Groups Are Wasteful and Extravagant.—Public Ownership Means a Topsy-Turvy World.—Changing Human Nature.
2. Contradictions Inherent in Public Operation.—Tax-Payers and Consumers.—Customs Duties in Switzerland.—Payment in Kind and the Raising of Salaries.—Depressing Effect of Public Operation.—Public Operation One Factor in the Problem of Unemployment.
3. Claude Mullins and Municipal Operation.—The Electors of To-day Are the Candidates of To-morrow.—Public Administrators the Slaves of the Employees Whom They Ought to Control.—Emphasis Not on Service, but on Political Effect.
4. Monarchical Conceptions of the Socialists.—Transformation of a Republican State into a Beneficent King.—Delusion of M. Fournière.—The Necessity of the Subordination of the Individual According to Philip Snowdon.
5. The Budget a Socialist Curb.—But the Socialists Consider Taxation an Instrument of Confiscation.—Sidney Webb on the Housing of Workmen and Ownership of the Soil.
6. Crisis of Parliamentarianism.—Necessity of Concentrating the Action of the State upon Fundamentals.—Security at Home and Abroad.—The Interference of Government in the Economic Activity of the Nation Means Disintegration of the State.

7. Resistance.—Declarations of the Swiss Federal Council. —M. Brouilhet and Public Opinion in France.
8. Conclusions.

1. Individuals are industrious, productive and economical; administrative and political groups, both national and municipal, are wasteful and run the taxpayers into debt.

The ingenious casuist turns this statement about and says: "In the future, municipalities and states will produce and economize while individuals who have worked will rest. He who has produced shall consume; he who has economized will no longer need to take that trouble." A truly topsy-turvy world that would be!

However, to the objections to which such a conception gives rise the reply is invariably: "A Socialist society will change human nature."

If past experiments are mentioned, your Socialist replies: "Those experiments have been tried in a capitalist society and consequently do not count."

In general those who are advocating most vehemently the nationalization and municipalization of all public utilities treat the officials who direct and govern them, whoever they may be, with the utmost scorn. If the Socialist could only put himself and his fellows in the high places of the government there would be nothing left to wish for.

2. Yet certain difficulties are insurmountable, even to a Socialist. When a political group exploits a utility, if there is any profit arising from the enterprise, it is made at the expense of the consumer; or, if there is

any advantage in it for the consumer, the taxpayers pay the piper.

In either case the minority is favored at the expense of the majority. In fact, every government operation ends in contradictions, similar to the one pointed out by M. Favarger [1] *apropos* of the Swiss railways:

"Through its customs duties the Federal Council raises the cost of living; then, in order to make it possible for government officials to support the heavier burden, it raises their salaries."

I have pointed out the depressing effect produced on industry at large by any threat of government or municipal operation. Private effort finds the struggle difficult, if not impossible, against competitors who may not only bring politics to bear, but who may even make use of the courts upon occasion. For no one is naturally predisposed to invest capital in an undertaking from which he may be driven out at any moment by government or municipal competition.

Consequently every threat of socialization or municipalization is followed by loss of energy in establishing or carrying on business, as well as by tightness in the money market. Then these, in their turn, become important factors in the problem of unemployment.

3. Claude W. Mullins, in his article upon "The Municipal Activity of London," [2] sheds great light on the disturbing character of municipal trading operations.

[1] *Journal des Économistes,* December, 1910.
[2] *Revue Économique Internationale,* see above.

"All questions become electoral questions, and this very real danger assumes a more threatening aspect when we consider the large number of employees connected with undertakings like the tramway service or water works. Municipal councillors are employers and candidates in one and the same person, a state of affairs carrying with it a serious menace to the future stability of any state.

"A president or member of a municipal committee is interested in the success of an enterprise both as a simple citizen and as a representative of his constituents."

Officials are not judged according to services rendered, but according to the effect produced by a "dilettante administration." The elector of one day may well be the candidate of the next; and, if his election depends upon employees in the government or municipal service, he will be at their beck and call, nor will he hesitate before any sacrifice of principle.

4. The Socialists look upon themselves as republicans in France, as in New Zealand. In reality they are monarchists, who, being at the family stage of civilization,[1] consider themselves as helpless dependents, and therefore long to transform a republican state into a beneficent ruler, whose business it is to make them happy, furnish them with bread, and otherwise provide them with all the things of which they stand in need—their needs being only limited by their desires.

Social theorists, like Eugene Fournière[2] have held,

[1] See Yves Guyot, *Les Principes de '89 et le Socialisme. La Democratie Individualiste.*

[2] Ibid.

despite all the evidence to the contrary, that they are defending the rights of the individual.[1]

Philip Snowden, M. P., representing the Labor Party in Great Britain, is at any rate logical when he says:[2]

"The object of Socialism is not to render the individual capable of living on his personal resources. That is the theory of radical individualism. Its object is to create in him a greater and greater sense of his dependence upon the state, and, at the same time, to inculcate in him the conviction that he is a part of it and that he has a duty and responsibility toward the state; and that only in so far as he fulfills this duty can he benefit by the advantages of a complete personal and social life."

5. The budget puts a curb on Socialism, at least in so far that it makes taxes necessary; those who would otherwise rush into reckless expenses feel the burden of these same taxes sufficiently themselves to bring home a vague realization of the following truth: *Nothing is free; everything must be paid for.* If the whole burden could only fall on others they would rejoice in running into debt. Far from preaching economy in the way of expenses, Socialists encourage prodigality, and they consider that fiscal confiscation is an instrument of social revolution.

Sidney Webb says: "The housing of the poor will absorb, through taxation, a continually increasing share of the income of the nation; and this increase of

[1] *L'Individu l'Association et L'État,* Paris, F. Alcan.
[2] Upon the Insurance Bill, *Labour Leader,* July 14, 1911.

local taxes is an unheeded sign of the gradual nationalization of the soil." [1]

We shall be almost at the "great day" of "the social cataclysm," when, after refusing to pay the debts due the government and municipal creditors, the Socialists are able to exclaim: "At last we have gone bankrupt."

6. We hear frequent remarks concerning the crisis of parliamentarianism, of the inefficiency and lack of power of our representatives. As a matter of fact, our representatives *are* guilty of wishing to do that which they know perfectly well no one of them can do, whatever be his efficiency or his capacity for work.

Now, parliamentary government is possible only on condition that it be divorced from all secondary questions, and all questions which do not concern domestic or foreign security are subsidiary and more or less negligible, in so far, at least, as direct government interest is concerned. Parliamentary government will be strong in proportion as its activities are confined to the fundamental duties of a state.

Statesmen who pursue an opposite policy are paving the way for anarchy. They are surrendering the institutions and the general policy of the country to the will of those who see only their own interest. They become the protegés of the employees whom they ought to control. They defer all questions to the convenience of the ringleaders of associations of their employees.

In the measure that they are willing to burden themselves with functions properly belonging to individ-

[1] *Socialism in England*, page 169.

uals they are sacrificing the general interest and endangering the security of the state, and chiefly for the sake of employees who consider themselves as the real proprietors of services which they are paid to perform.

The interference of the state in the economic activity of the nation means the ultimate disintegration of the state.

7. The message of the Swiss Federal Council [1] to the Chambers, proposing the creation of an administrative tribunal, contains the following passage:

"In the degree that a modern state extends the circle of its functions and that its component parts penetrate within the domain reserved down to the present to private enterprise, the number of its employees increases to vast proportions and the citizen, threatened in his individual rights by an official autocracy, scents the danger of encroachment on the part of the all-powerful state and feels an instinctive need of efficient protection against this inimical force."

M. Brouilhet, French socialist reformer and partisan of government intervention, says:

"We can remember when public opinion was most lenient to the government; but since the government, desiring to conciliate the people, has become an active participant in trading enterprises, a reaction has set in, and truly public opinion is now lacking in indulgence."

As for France, M. Brouilhet concludes:

"Before the government absorbs another tenth of the general activity of the country a long time will certainly elapse."

[1] *Gazette de Lausanne*, February 1, 1912.

In a remarkable article, appearing in the *Gazette de Lauzanne,* Edouard Secretan, member of the National Council, declares:

"About 30 years ago the Federal power was first and foremost political. Its principal business was the national defense, and the relations between Switzerland and foreign countries.

"In domestic affairs its action in regard to the cantons was advisory and disinterested in character, its intervention as limited as possible. It governed from above and devoted itself mainly to establishing national unity. Under this régime we became a nation under a Federal government chiefly interested in seeing the right prevail.

"But things have changed. The Federal government has chosen to become banker, common carrier, insurance broker, and it is only a question of time before it will become a merchant. It is only half a banker, but it has become a real common carrier and this operation has made it a debtor for 1,500,000 francs, owed almost exclusively to foreign creditors.

"To the enormous enterprise of transportation has now been added insurance. Here, again, we must count by millions.

"To-day our whole political life is dominated by financial preoccupations, and technical experts have taken the place of statesmen.

"They impose themselves on the Federal Council on the basis of responsibilities they have themselves incurred, and the Federal Council transmits to the Chamber the will of this or that general manager of some public undertaking. In fact managerial authority has a tendency to become dictatorial authority.

"The German part of Switzerland, Bern, Zurich, Aaron, etc., is the storm center of all this propaganda.

Romance Switzerland still resists. It has twice rejected the state bank, twice the insurance monopoly, and once, at least, the purchase of railroads."

8. The experiences arising from state and municipal trading operations lead inevitably to the following conclusions:

1. Public monopolies kill the spirit of initiative by destroying competition. The ultimate result is fatal industrial lethargy.

2. Public operation emphasizes the special demands of the community, rather than fundamental necessities, and provides opportunities for nepotism, graft, and corruption.

3. Operation by states and local governments is more difficult than private management. This is a rule which holds good, despite a few apparent exceptions.

4. Government employees, paid for their loyalty to the public interest, come to consider their positions as their own private property, and, the more numerous they are, the more they incline toward exchanging their rôle of subordinates for that of masters; from being directed they become the directors.

5. Intervention of the public power has an adverse influence upon the distribution of wealth; sometimes it is the whole body of taxpayers who must suffer for the sake of some privileged class, sometimes the consumer is defrauded to benefit the taxpayer.

6. In every public enterprise the risks of loss are borne by the taxpayers, and, in order to realize their immediate ideals, and, while waiting for the hoped-for

increase of personal influence, statesmen or municipal officials tie up the finances for a more or less long period, meanwhile burdening the taxpayers of the future with expenses for which they will have to provide without having consented to them.

7. All such trading operations oppose political to economic competition.

The propaganda of public ownership has established more firmly than before the truth of the following industrial laws:

First: Neither states nor municipalities should attempt tasks especially adapted to individual effort.

Second: In the case of those utilities in which the public interest is general, as railways, water, gas, electricity, tramways, etc., there must be a physically and morally responsible body, accountable to the public on the one hand and the service on the other, and protected by contracts against vacillations of public opinion and the extortionate demands of interested groups, whether employees, consumers, or politicians.

Third: For individuals the watchword should be action; for local and state governments, control.

APPENDIX "A"

ALCOHOLISM IN RUSSIA

The best minds in Russia stand aghast at the ravages wrought in Russian society by the abuse of *vodka,* the national spirituous drink of the lower orders. The Government at St. Petersburg has maintained a monopoly in the manufacture and sale of this commodity, and has promoted with great energy its production and use. The Army and Navy that fought with Japan were supported by the revenue that came from this monopoly, and Russia, we are told, has replenished the privy purse of its sovereign from the sale of a drink that is actually tending to the demoralization of the common people. As far as we can learn from the opinion of the Russian press, ever since the Russian Government declared *vodka* a state monopoly, and assumed the rôle of the saloon keeper, the liquor business there has been making rapid progress, and has become one of the main sources of income of that country. Last year the Government of the Czar realized from the sale of liquor $412,000,000, and for the first six months of this year the proceeds exceded those for the corresponding period of last year by nearly $23,500,000, which figures, perhaps, tend to show that the Russian bureaucracy has been successful in one branch of

endeavour, at any rate. It may be recalled here that Mr. Maklakov, the Minister of the Interior, said in an interview with a French journalist some time ago that the "severe climate of Russia makes alcohol a vital necessity to the masses." But some Russians do not agree with that statesman's view, and have very different ideas about the results of the Government's activity in that direction. "Public drunkenness has been growing to extraordinary proportions," says the *Ryetch* (St. Petersburg), and the increase in drinking "has assumed a really threatening character." The radical press, and even some conservative organs, have been conducting a vigorous campaign against the liquor monopoly. Mr. M. Menshikov, of the *Novoye Vremya* (St. Petersburg), condemns it in the following words:

"A state monopoly of the source of drunkenness exists only here, in Russia, and all the rest of the world —it seems, without exception—does not allow the complicity of the Government in this public vice. In the whole world, even in the barbaric and pagan, the rôle of the Government is presumed to be a struggle against vices, but not participation in the way of their exploitation. . . . Our official publicists (oh, how hard their task is!) maintain that the Government sells alcohol exclusively with a view to limiting the evil: that if it should allow perfect freedom in the manufacture and sale of this poison, drunkenness would reach 'quite incredible limits.' However, the experience of all nations—both Christian and pagan—which grant freedom in this respect shows different results. Public intemperance in those countries persists, but it is far

less and not so appalling as here. Why? For one simple reason. Repudiating the monopoly of liquor, the governments in the West deprive this vice of the most powerful capital in the world, that of the state. They deprive it of the most powerful mechanism of distribution, the governmental system. They take from it the highest authority, that of state approval. That alone constitutes a hard blow to vice. . . . Some may say: Permitting the manufacture, sale, and consumption of alcohol, the governments in the West grant freedom to this evil. Not at all. Only an opportunity for evil is afforded, but simultaneously measures are taken to limit the opportunity. Not getting into an irreconcilable contradiction with itself, like our Government, the western authorities can fight drunkenness like any other vice. But here the temperance movement, as is known, frequently meets with opposition on the part of the Government. The resolutions of numerous village assemblies regarding the closing up of saloons and Government liquor stores have not been affirmed, petitions have not been granted, preachers of temperance have frequently been dealt with as common rioters, and subjected to punishment. . . . Despite the categorical 'wish' of the Imperial Duma that liquor should not be sold in the colonization lands of Siberia belonging to the Government and the Ministry of Domains, liquor is being freely sold there. . . . For many years the press and society have pointed to the unseemliness of selling liquor on great Christian holidays or in the early hours when the working people go to their factories and mills, or of selling it in such small quantities that the last cent

might be taken from the beggar. The indecency and the great harm of it are well understood, but what can you do if the nature of trade in general and that in liquor in particular demands that the trade should adapt itself to the chief consumer—the drinking masses? Having become the owner of and dealer in such a poisonous product, the Government has placed itself in a false position from which there is no way out. To limit the traffic means to limit the income . . . ; not to limit it means really to make drunkards of the people."

In conclusion, Mr. Menshikov takes this more hopeful view, however:

"No matter how much bureaucratic eloquence the 'liquor publicists' should expend, the fate of the liquor monopoly in Russia is already decided. If not the days, the years, of this unhappy child of Count Witte and Kokovtzov are numbered. I say this with absolute certainty, because I cannot conceive that the clouding of the Government's consciousness in this question can last much longer. Seeing the terrible results of public intemperance, it is quite improbable that the Duma and the Imperial Council will not attempt to check the danger, that the church will not take a hand, enlightened society, and lastly the Government itself."
—Translations made for *The Literary Digest.*

APPENDIX "B"

THE FINANCIAL YEAR IN AUSTRALIA

Effects of Labour Rule.

(FROM OUR CORRESPONDENT)

SYDNEY, OCT. 21.

Three and a half months have elapsed since the close of the past financial year, and it is only now that it can definitely be said how the figures for the year were shaped. Even now the New South Wales Budget for the current year has not been forthcoming, which is a serious inconvenience, because New South Wales has built up a heavy deficit, and the position needs righting. But it would be a blow to the Labour Party now in office to impose fresh taxation prior to the State elections just ahead, and so the question has been shelved. The Commonwealth Budget was delivered early in October, and five states have put forward their estimates—two within the past week.

State revenues expanded at a slower rate last year, as can be gathered from the following statement, while expenditures increased without check in two of the states:

SIX STATE REVENUES COMBINED

	Revenues.	Expenditures.	Excess of	
1910-11.. ..	£37,365,653	£37,499,315	Expenditure,	£133,662
1911-12.. ..	41,278,034	41,148,646	Revenue,	129,388
1912-13.. ..	43,056,398	44 240,805	Expenditure,	1,184,407
Estimates (say)				
1913-14.. ..	46,050,000	46,600,000	Expenditure,	550,000

The estimates for 1913-14 are composed of five Budget statements, and, in the case of New South Wales, allow for an increase of £400,000 in taxation, which the Premier foreshadowed, and an average growth in other revenues. Now, it will be noticed that in 1911-12 the combined revenues increased £3,913,-000, but in 1912-13 the increase was only £1,778,000, or not one-half that of the previous year. But the expenditures, which increased £3,649,000 in 1911-12, further increased £3,092,000 in 1912-13—hence the combined deficiency.

With regard to the estimates for 1913-14, it will be seen that an increase of close upon £3,000,000 is allowed for, including further taxation in New South Wales and West Australia. Whether it will be realized is the unsolved problem. Revenues have lost much of their elasticity just now.

GROWTH OF LABOUR EXPENDITURE

But these combined results tar all the States with the same brush, and that is altogether unfair. Four of the states are not under labour administration, while two (New South Wales and West Australia) are so. Separating the returns for last year into the two groups, we have the following:

APPENDIX "B"

	Revenue	Expenditure.	
Two Labour Governments	£20,857,115	£22,275,898	Deficit, £1,418,783
Four other Governments	22,199,283	21,964,907	Surplus, 234,376
	£43,056,398	£44,240,805	Deficit, £1,184,407

The two labour-governed states secured £1,114,000 of the year's revenue expansion, while the remaining four gained only £664,000; but the latter group all lived within their incomes, while the two labour administrations lived much beyond them. Similar results were shown in the preceding year, only of a less pronounced character, and they are again apparent in the new financial year's estimates, and both these labour administrations have already imposed more taxation, and their programs include yet additional taxation in 1913-14.

Labour has been three years in office in New South Wales, and two years in West Australia. But a three years' comparison of the two groups is altogether remarkable:

AUSTRALIAN STATE EXPENDITURES.

	Two Labour Governments.	Four Other Governments.
1909-10	£16 685,882	£18,887,372
1912-13	22,275,898	21,964 907
Three years' increase ..	£5,590,016	£3,077,535
	or 33.5 per cent.	or 16.3 per cent.

The whole reason for the marked retrogression under labour finance has been in the striking growth of their expenditure, which relatively in the past three years has been twice as rapid under labour administration as under what Australians term Liberal adminis-

tration. It is quite to be understood. Labour came into office on the votes of a class, and that class is master. It cannot be denied what it asks for, and in fact the legislative programs have to be submitted to the caucus at the Trades Halls and approved before they can be put forward.

When these administrations came into office—and the caucus into power—it was boasted that the burden of their schemes should be placed upon the shoulders able to bear it. But their expenditures have run away from their incomes all the same, and the burden has been spread, as the increased cost of living specially affects labour.

What is more, in the efforts to find money for state employees, which have multiplied greatly, loans have been called upon to supplement revenue freely. The railways and other public works are needed, but the effect of the increased loan expenditure on the volume of state employment has been marked all the same. However, the effect upon revenue has been beyond controversy. Happily, all six of the state governments are not under labour rule, and the commonwealth has recently made a change. The state election in New South Wales, just ahead, may do so likewise. But in the foregoing statements facts only have been dealt with, and facts are above the party cries current in Australia.

With respect to the revenue estimates for the current year, over £2,000,000 of the expected increases go to the two labour administrations and £1,000,000 to the remaining four states; but, then, the labor governments are augmenting taxation, and may not realize their estimates. However, that remains to be proved.

APPENDIX "B"

THE COMMONWEALTH AND THE STATES

Labour has also been three years in office in the Commonwealth, and the expenditure has been more than doubled—growing from £7,499,517 in 1909-10 to £15,779,483 in 1912-13. Much of the increase is for value received, including the fleet nucleus. But every department has grown enormously, like the post-office, which cost £3,231,198 in 1909-10 and £4,783,744 in 1912-13—an increase of 48 per cent., excluding construction. The expenditure of Australia (commonwealth and states), excluding all duplications, was last year £59,780,088, and the combined revenues £58,492,834, the net deficiency having been £1,287,254. The commonwealth accounts showed a surplus of £391,550, but that was because £494,397 of the expenditure was charged to the accumulations from previous years. That was legitimate, but the actual expenditure of the year is given in the above statement. The commonwealth expenditure in the current financial year is placed at £15,147,000, but that is after deducting £2,653,223 charged against the accumulations of previous years, wiping them out completely.

Australia has tried the effect of labour rule, and has paid the bill, apart from the deficits. This serves to show what the cost has been, and that cost may have some effect on the elections. That it has been a burdensome luxury is clear, while whether class legislation is the best of legislation is a matter which may be left to consideration. Class legislation never gives the results anticipated.—The *Times* (London), November 29, 1913.

APPENDIX "C"

THE SHORTCOMINGS OF THE TELEPHONE IN ENGLAND

To anyone who has had practical experience of the United States telephone service, resulting from private enterprise, the inferior condition of the English service excites no wonder. The history of the telephone in the United Kingdom during the past 30 years has been a lamentable tale of bureaucratic blundering, tolerated by a community which has failed to perceive the potential value of this method of communication and to insist upon its effective organization on a business basis. As the result of a short-sighted Government policy, of official mismanagement, and the parochial attitude of local authorities, the number of telephones per hundred of the population in Great Britain to-day is 1.4, as against 8.1 in the United States. London, the greatest city in the world, boasts 2.8 telephones for every hundred of its inhabitants, as against a percentage of 24.0 in Los Angeles.

One of the chief obstacles barring the way to satisfactory development of the telephone as a public utility has been the traditional conservatism of the Post Office and the fixed idea of protecting the Government's telegraph revenues against effective competition by the

telephone. In 1889 the Postmaster-General (after declining to purchase the telephone patents) brought a suit to prevent the Edison Company from establishing telephone exchanges in London, as constituting an infringement of his telegraph monopoly. Successful administration of an industrial enterprise like the telephone requires vigilant initiative and elasticity.

PRIVATE ENTERPRISE IN AMERICA

In America the possibilities of the telephone as a time-saving and labor-saving invention were better realized from the outset. Thanks to the intelligence, foresight, and public spirit of Mr. Theodore N. Vail, founder of the telephone enterprise in the United States and still president of the American Telephone and Telegraph Company, the business has been steadily built up with high ideals of organized efficiency and civic duty. Mr. Vail's ambition was, and is, "that every person, firm, or company in the United States that ought to have a telephone shall be provided with one, and that any person so provided, wherever he may be located, can within a reasonable time be connected to the telephone of any other subscriber and talk satisfactorily." For 30 years work has been steadily carried on with this ideal in view, and with marvellous results. At the International Telephone and Telegraph Conference held in Paris in September, 1910, the chief engineer of the company summarized some of these results as follows:

> In the plans which we have made for New York and for the other cities in America it has been found, all things con-

sidered, most economical when building new subways to plan for a period somewhere between 15 and 20 years ahead.

Our expenditure for new construction during the first six months of 1910 is more than $21,000,000.

The fundamental plans for New York, not including the vast suburban region outside of the municipal limits of Greater New York, provided in 1900 for a system of 51,398 telephone stations, served from 52 central offices, with an estimated population of 4,800,000. In 1930 the plans provide for 2,142,000 stations, to be served from 109 central offices, with an estimated population of 8,800,000.

At the present time an enormous amount of toll line business takes place between New York City and the territory tributary to it for 30 miles around. In 90 per cent. of this business the connexion is made in an average of 38 seconds. In all of these cases the transmission conditions are so planned that the subscriber may converse with ease. A local call is accomplished in less time, requiring only 22 seconds where but one office is involved, and slightly more between two offices.

Between cities as far distant from each other as New York, Boston, Washington, and Philadelphia, "Good talking with prompt connexions" by underground cables is the regular rule, while communication by phantom loaded overhead circuits has been extended as far west as Denver, distant 2,200 miles from New York.

RESULTS OF EFFICIENT SERVICE

There is no doubt that the superiority of the American system has been attained in a great measure by administrative ability in its organizers and the wide field of opportunity, with few serious obstacles of competition, in which they have worked. Their outlook has been steadily national, not parochial. They have realized that defective telephone communication is, in every sense, bad business, and that the factors constituting good service, in the order of their importance, are (1) speed and accuracy in securing connexions;

(2) volume and clearness of sound transmitted, and (3) cost. They have realized that the money value of the time and temper wasted by the public over a bad service is a far more serious consideration than any reasonable charges imposed for a good one, and they have therefore proceeded on the principle that speed and reliability are more important than cheapness. Furthermore, Mr. Vail's civic ideals have been applied, with loyalty and enthusiasm, throughout. Esprit de corps, and a spirit of emulation between exchanges are encouraged to the utmost. One of the best features of the telephone business, as organized in America, is the public appreciation of the staff's keenness, its "team work," and pride in efficiency.

Under such conditions the public service retains its human interest—no small factor in smooth working—and the "telephone habit" becomes easily explicable. In January, 1911, the number of telephones in New York was equal to the combined totals of London, Paris, and Berlin.

FAILURE OF GOVERNMENT CONTROL

In Great Britain the history of telephone legislation has persistently reflected the vacillations of immature opinion, strengthened by the attitude of permanent officials of the Post Office and the Treasury. The situation to-day is the result of years of laisser-faire, improvidence, and vacillation. Its economic defects and inadequate equipment are the natural consequences resultant from the National Telephone Company's inability, as the expiry of its franchise drew near, to provide for expansion of service and renewal of plant. The

economical construction of new underground cables alone involves plans and estimates for a period somewhere between 15 and 20 years ahead. Further causes of disorganization lie in the relaxation of discipline and esprit de corps consequent upon the transfer of the telephone company's personnel to the Post Office; in the jealousies and friction between old employees and new, all tending to impair smooth working; above all, in the technical telephone staff's recognition of the fact that under the cast-iron, water-tight compartment system of Post Office tradition there is little or no scope for intelligent individual initiative and scant prospect of applying business methods to the development of what should be a rapidly expanding commercial undertaking, managed by the best technical and financial talent obtainable.

There are many experts qualified to speak with authority on this question who share the views expressed by Lord Desborough, as president of the London Chamber of Commerce, on May 18, 1911.

> Many chambers of commerce besides the London Chamber, he said, had discussed the subject, and they were unanimously of opinion that it would be very much better for the telephone service of this country to be in the hands of a board of experts than to hand it over to a Government Department. . . . Business men would like to see an independent authority formed, somewhat on the lines of the Port of London Authority, or in any case formed of business men and of experts, with sufficient Government representation. Such men would be alive to the needs of the business community and accessible to representations from them, and would bring the telephone service of this country up to the requirements of the nation.—*The Times* (London), December 1, 1913.

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